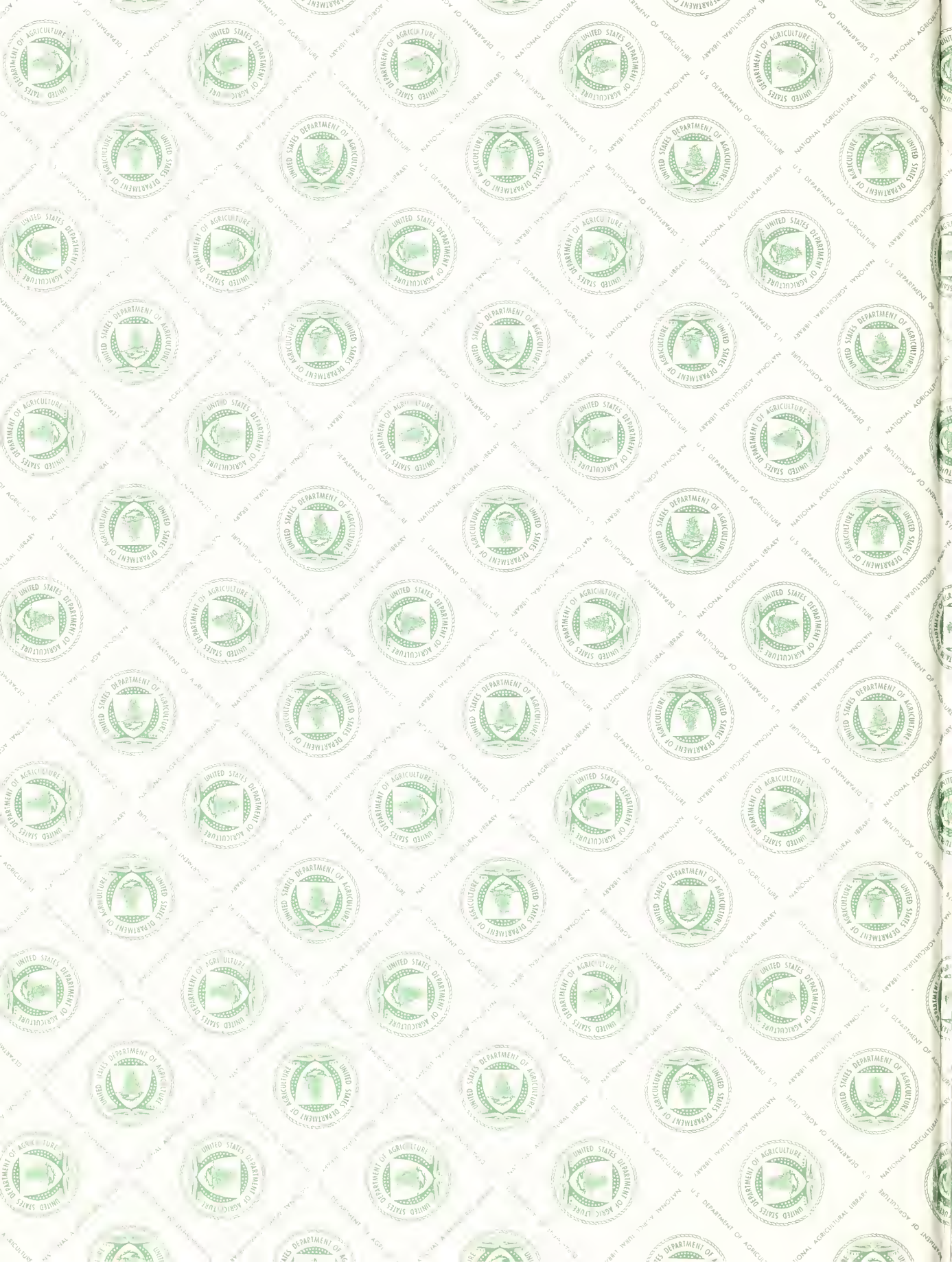


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Do not assume content reflects current scientific knowledge, policies, or practices.





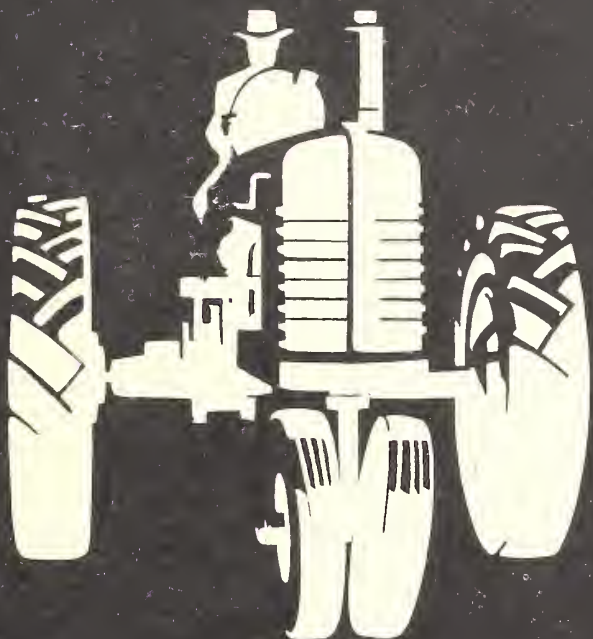
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OUTLOOK 1966

PROGRAM: 43RD ANNUAL NATIONAL
AGRICULTURAL OUTLOOK CONFERENCE

★ NOVEMBER 15 TO 18, 1965 ★

U.S. DEPARTMENT OF AGRICULTURE,
WASHINGTON, D.C.



Monday, November 15

9:00 REGISTRATION: USDA South Building, 5th Wing Entrance,
Independence Avenue

THOMAS JEFFERSON MEMORIAL AUDITORIUM
USDA South Building

Nathan M. Koffsky, Director,
Agricultural Economics, USDA, Chairman

9:30 Opening of Conference
Raymond C. Scott, Assistant Administrator, FES, USDA

9:40 The 1965 Farm Program
John A. Schnittker, Under Secretary of Agriculture

The Situation and Outlook for 1966

10:10 The Agricultural Outlook for 1966
Rex F. Daly, Chairman, Outlook and Situation Board, ERS, USDA

10:45 INTERMISSION

11:00 National Economic Situation and Outlook for 1966
James P. Cavin, Director, Economic and Statistical
Analysis Division, ERS, USDA

11:30 PANEL DISCUSSION--Nathan M. Koffsky, USDA, Moderator

Rex F. Daly, USDA

James P. Cavin, USDA

Aryness Joy Wickens, Department of Labor

Louis J. Paradiso, Associate Director, Office of Business
Economics, Department of Commerce

John Deaver, Vice President, Chase Manhattan National Bank

THOMAS JEFFERSON MEMORIAL AUDITORIUM
USDA South Building

George L. Mehren, Assistant Secretary, USDA, Chairman

Foreign Trade Outlook

- 2:00 Outlook for Exports of U.S. Farm Products
Raymond A. loanes, Administrator, Foreign Agricultural Service,
USDA
- 2:30 East-West Trade and Changing Trade Patterns
Anthony M. Solomon, Assistant Secretary for Economic Affairs,
Department of State
- 3:00 INTERMISSION
- 3:15 PANEL DISCUSSION--George L. Mehren, USDA, Moderator
Raymond A. loanes, USDA
Anthony M. Solomon, Department of State
Joseph W. Willett, Deputy Director, Foreign Regional Analysis
Division, USDA

Tuesday, November 16

THOMAS JEFFERSON MEMORIAL AUDITORIUM
USDA South Building

John A. Baker, Assistant Secretary, USDA, Chairman

Farms, Farmers, and The Rural Economy—Up to Date

- 9:00 The United States Farm, 1964 -- Its Structure and Production
Ray Hurley, Chief, Agriculture Division, Bureau of the Census,
Department of Commerce
- 9:55 The Farmer, 1964 -- Income Levels and Family Characteristics
John H. Southern, Deputy Director, Economic Development
Division, ERS, USDA
- 10:20 The Rural Economy -- Interrelationships, Emerging Issues,
and Problems
James T. Bonnen, Associate Professor, Department of Agricultural
Economics, Michigan State University
- 10:45 INTERMISSION
- 11:00 PANEL DISCUSSION -- John A. Baker, USDA, Moderator

Ray Hurley, Department of Commerce

John H. Southern, USDA

James T. Bonnen, Michigan State University

C. A. Williams, Assistant to Administrator, FES, USDA

COMMODITY SESSIONS

Tuesday Afternoon

1:30

Feed, Livestock and Meat

Thomas Jefferson Memorial Auditorium

Buel F. Lanpher, FES, Chairman

1:30--Malcolm Clough, ERS, Feed Outlook Statement

2:50--INTERMISSION

3:10--Robert L. Rizek, ERS, Livestock and Meat Outlook
Statement

Wednesday, November 17

9:15--10:40

Dairy

Freer Gallery of Art Auditorium

Lawrence M. Vaughan, FES, Chairman

Anthony G. Mathis, ERS, Outlook Statement

10:50--12:15

Poultry

Freer Gallery of Art Auditorium

Richard G. Ford, FES, Chairman

Herman Bluestone, ERS, Outlook Statement

Extension economists on panel:

Gene A. Futrell, Iowa State University

Paul C. Bunce, University of Georgia

Willard T. McAllister, University of Delaware

COMMODITY SESSIONS (continued)

Wednesday Afternoon

- 1:30--2:30 Vegetables and Potatoes
Room 3056, South Building
Dana G. Dalrymple, FES, Chairman
Donald S. Kuryloski, ERS, Outlook Statement
- 1:30--2:30 Sugar
Room 3115, South Building
Tom O. Murphy, ASCS, Chairman
- 2:45--4:15 Fruits and Tree Nuts
Room 3056, South Building
Dana G. Dalrymple, FES, Chairman
Ben H. Pubols, ERS, Outlook Statement
- 2:45--4:15 Cotton
Freer Gallery of Art Auditorium
Egemonid P Callahan, FES, Chairman
James R. Donald, ERS, Outlook Statement

Thursday, November 18

- 9:15--10:40 Fats, Oils and Peanuts
Freer Gallery of Art Auditorium
John R. Paulling, FES, Chairman
George W. Kromer, ERS, Outlook Statement
- 9:15--10:40 Forest Products
Room 3115, South Building
Paul O. Mohn, FES, Chairman
Dwight Hair, FS, Outlook Statement
- 10:50--12:30 Wheat
Freer Gallery of Art Auditorium
E. Dean Vaughan, FES, Chairman
William R. Askew, ERS, Outlook Statement
- 10:50--12:30 Tobacco
Room 3056, South Building
Claude G. Turner, ASCS, Chairman
Arthur G. Conover, ERS, Outlook Statement

FAMILY LIVING SESSIONS

Tuesday Afternoon

CONFERENCE ROOM 43, MUSEUM OF NATURAL HISTORY
10th Street and Constitution Avenue

Helen Turner, Assistant Director, Division of
Home Economics, FES, USDA, Chairman

Opportunities for Adding to Income

- 2:00 Employment Opportunities
Mary Keyserling, Chief, Women's Bureau, Department of Labor
- 2:45 Income-Producing Opportunities in Recreation
Karl Munson, Division of Resource Development and Public
Affairs, FES, USDA
- 3:15 INTERMISSION
- 3:30 Effect of Number of Earners on Family Incomes and Expenditures
Emma G. Holmes, Family Economics Branch, ARS, USDA
- 4:00 PANEL DISCUSSION: Implications for the Family
Helen Turner, USDA, Moderator
Mary Keyserling, Department of Labor
Karl Munson, USDA
Emma Holmes, USDA
M. H. Williams, Operating Loans Division, FHA, USDA
A. Webster Tenney, Vocational and Technical Education Division,
Department of Health, Education and Welfare
Ann Thompson, Extension Home Economist, Programs, Florida

FAMILY LIVING SESSIONS (continued)

Wednesday, November 17

CONFERENCE ROOM 43, MUSEUM OF NATURAL HISTORY
10th Street and Constitution Avenue

Faith Clark, Director, Consumer and Food Economics
Research Division, ARS, USDA, Chairman

Outlook for Supplies and Prices

FOOD

- 9:15 Food: Consumption, Prices and Expenditures
Stephen J. Hiemstra, Head, Food Consumption and Utilization
Section, ERS, USDA
- 10:00 New Developments in Foods
R. H. Treadway, Assistant Director, Eastern Utilization Research
and Development Division, ARS, USDA
- 10:45 INTERMISSION

CLOTHING AND TEXTILES

- 11:00 Clothing and Textiles: Supplies and Prices
Virginia Britton, Family Economics Branch, ARS, USDA
- 11:30 Commodity Standards--And What They Mean to the Consumer
Mansfield Lonie, Commodity Industry Specialist, National Bureau
of Standards

FAMILY LIVING SESSIONS (continued)

Wednesday Afternoon

CONFERENCE ROOM 43, MUSEUM OF NATURAL HISTORY
10th Street and Constitution Avenue

Irene H. Wolgamot, Assistant to the Director, Consumer and Food
Economics Research Division, ARS, USDA, Chairman

Home Furnishings and Housing

- 1:30 Household Equipment and Furnishings: Supplies and Prices
Ethel Hoover, Chief, Division of Price and Index Numbers
Research, Bureau of Labor Statistics, Department of Labor
- 2:15 Housing Act of 1965
Louis D. Malotky, Director, Rural Housing Loan Division, FHA,
USDA
- 2:45 Housing Supplies and Prices
Mary Jane Ellis, Family Economics Branch, ARS, USDA
- 3:15 INTERMISSION

Medical Care

- 3:30 Health Insurance Benefits for the Aged
Neota Larson, Chief, Welfare Branch, Division of Claims Policy,
Social Security Administration, Department of Health, Education
and Welfare
- 4:15 Family Expenditures for Medical Care
Jean L. Pennock, Chief, Family Economics Branch, ARS, USDA

FAMILY LIVING SESSIONS (continued)

Thursday, November 18

CONFERENCE ROOM 43, MUSEUM OF NATURAL HISTORY
10th Street and Constitution Avenue

Stella Mitchell, Division of Home Economics, FES, USDA, Chairman

Implications of Outlook for Program Planning

- 9:30 Reports of Listening Teams
 State specialists
- 10:30 INTERMISSION
- 10:45 Outlook Information Influences Our Programs
 Two State specialists
- 11:15 Pressures--Perplexities--Priorities
 Margaret Browne, Director, Division of Home Economics, FES,
 USDA

STATE EXTENSION DELEGATES

ALABAMA

Bailey Hill
Elizabeth Bryan
Charles Maddox

ALASKA

No representative

ARIZONA

Clarence D. Edmond

ARKANSAS

Crystol C. Tenborg
Clay Moore

CALIFORNIA

G. Alvin Carpenter

COLORADO

Richard Fenwick
Madeline Moos

CONNECTICUT

Robert Leonard

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W. T. McAllister
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FLORIDA

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Anne J. Postell
Paul Bunce
Lora Laine

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Eleanor Matsumoto

ILLINOIS

R. A. Hinton
L. H. Simerl

INDIANA

Jane Knapp
Elkin Minter
Jack Armstrong
J. Carroll Bottum

IOWA

Frankie Schwenk
Gene Futrell

KANSAS

Margaret Koenig
Mildred Walker
Quentin Banks

KENTUCKY

Frances Stallard
Wilmer Browning

LOUISIANA

R. J. Courtney
Verna D. Guillory
W. D. Curtis
Norvel E. Thames

MAINE

Susan Lake
Lewis E. Clark

MARYLAND

Evelyn R. Nantz
Ray Murray

MASSACHUSETTS

Ellsworth W. Bell

MICHIGAN

Josephine Lawyer
John Ferris

MINNESOTA

Paul R. Hasbargen
Mary Ryan

MISSISSIPPI

Robert L. Williams
Willie F. Felder

MISSOURI

Leroy Rottman
Glenn Grimes
C. E. Klingner
Dave Harrington
Alice Mae Alexander

MONTANA

John C. Bower

NEBRASKA

T. A. Evans
Clara Leopold

NEVADA

William V. Neely

NEW HAMPSHIRE

D. Anne Nickerson

NEW JERSEY

Robert G. Latimer
Frederick A. Perkins
John M. Hunter
William Parks
Alan Meredith
George Luke
Cleo Cottrell

NEW MEXICO

W. Y. Fowler

NEW YORK

Roger Murphy
Ruth Ann Hodgson
Clara Wendt
Carlton Wright
Elizabeth Wiegand
Ruby Loper
Janet Clay
Heinz Biesdors
Helen Bayer
W. W. Marzolf
R. B. How
L. C. Cunningham
George Casler

STATE EXTENSION DELEGATES (continued)

NORTH CAROLINA

Kay Riggle
C. R. Pugh
Bessie Ramseur

NORTH DAKOTA

Lois Restemayer
Fred Sobering

OHIO

John Staubus
John Bottum
Donald Osburn
Ross Milner
Mabel Spray
Donald Moore
Edwin Royer
Charles Martin

OKLAHOMA

O. Dean Hubbard

PENNSYLVANIA

Jesse G. Cooper
Charles W. Porter
A. Kermit Birth
Magdalene R. Foster

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Esther J. P. Rodriguez
Roberto Lefebre-Munoz

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Robert K. Reynolds
Ocie J. O'Brien
Amelia H. Fuller
Gaynelle Hogan

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Karl Hobson
Esther Liggett

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Vernon M. Sheppard
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WISCONSIN

Florence G. Rann
Vernon E. Schneider
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WYOMING

Martha Ulrich
William Scarborough

OUTLOOK 1966

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9:40 The 1965 Farm Program
Orville L. Freeman, Secretary of Agriculture

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- 2:00 Outlook for Exports of U.S. Farm Products
Raymond A. Ioanes, Administrator, Foreign Agricultural Service,
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- 2:30 East-West Trade and Changing Trade Patterns
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Ray Hurley, Department of Commerce

John H. Southern, USDA

James T. Bonnen, Michigan State University

Earl F. Pettyjohn, Assistant Director, Division of Resource
Development and Public Affairs, FES, USDA

COMMODITY SESSIONS

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Feed, Livestock and Meat

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Wednesday, November 17

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Herman Bluestone, ERS, Outlook Statement

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COMMODITY SESSIONS (continued)

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- 1:30--2:30 Vegetables and Potatoes
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Dana G. Dalrymple, FES, Chairman
Donald S. Kuryloski, ERS, Outlook Statement
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FAMILY LIVING SESSIONS

Tuesday Afternoon

CONFERENCE ROOM 43, MUSEUM OF NATURAL HISTORY
10th Street and Constitution Avenue

Helen Turner, Assistant Director, Division of
Home Economics, FES, USDA, Chairman

Opportunities for Adding to Income

- 2:00 Employment Opportunities
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- 2:45 Income-Producing Opportunities in Recreation
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Karl Munson, USDA
Emma Holmes, USDA
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A. Webster Tenney, Vocational and Technical Education Division,
Department of Health, Education and Welfare
Ann Thompson, Extension Home Economist, Programs, Florida

FAMILY LIVING SESSIONS (continued)

Wednesday, November 17

CONFERENCE ROOM 43, MUSEUM OF NATURAL HISTORY
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Faith Clark, Director, Consumer and Food Economics
Research Division, ARS, USDA, Chairman

Outlook for Supplies and Prices

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FAMILY LIVING SESSIONS (continued)

Wednesday Afternoon

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Economics Research Division, ARS, USDA, Chairman

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Ethel Hoover, Chief, Division of Price and Index Numbers
Research, Bureau of Labor Statistics, Department of Labor
- 2:15 Housing Act of 1965
Ralph W. Turner, Rural Housing Loan Officer, FHA, USDA
- 2:45 Housing Supplies and Prices
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- 4:15 Family Expenditures for Medical Care
Jean L. Pennock, Chief, Family Economics Branch, ARS, USDA

FAMILY LIVING SESSIONS (continued)

Thursday, November 18

CONFERENCE ROOM 43, MUSEUM OF NATURAL HISTORY
10th Street and Constitution Avenue

Stella Mitchell, Division of Home Economics, FES, USDA, Chairman

Implications of Outlook for Program Planning

- 9:30 Reports of Listening Teams
 State specialists
- 10:30 INTERMISSION
- 10:45 Outlook Information Influences Our Programs
 Two State specialists
- 11:15 Pressures--Perplexities--Priorities
 Margaret Browne, Director, Division of Home Economics, FES,
 USDA

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Susan Lake
Lewis E. Clark

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Evelyn R. Nantz
Ray Murray

MASSACHUSETTS

Ellsworth W. Bell

MICHIGAN

Josephine Lawyer
John Ferris

MINNESOTA

Paul R. Hasbargen
Mary Ryan

MISSISSIPPI

Robert L. Williams
Willie F. Felder

MISSOURI

Leroy Rottman
Glenn Grimes
C. E. Klingner
Dave Harrington
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MONTANA

John C. Bower

NEBRASKA

T. A. Evans
Clara Leopold

NEVADA

William V. Neely

NEW HAMPSHIRE

D. Anne Nickerson

NEW JERSEY

Robert G. Latimer
Frederick A. Perkins
John M. Hunter
William Parks
Alan Meredith
George Luke
Cleo Cottrell

NEW MEXICO

W. Y. Fowler

NEW YORK

Roger Murphy
Ruth Ann Hodgson
Clara Wendt
Carlton Wright
Elizabeth Wiegand
Ruby Loper
Janet Clay
Heinz Biesdors
Helen Bayer
W. W. Marzolf
R. B. How
L. C. Cunningham
George Casler

STATE EXTENSION DELEGATES (continued)

NORTH CAROLINA

Kay Riggle
C. R. Pugh
Bessie Ramseur

NORTH DAKOTA

Lois Restemayer
Fred Sobering

OHIO

John Staubus
John Bottum
Donald Osburn
Ross Milner
Mabel Spray
Donald Moore
Edwin Royer
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WASHINGTON

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WISCONSIN

Florence G. Rann
Vernon E. Schneider
Richard H. Vilstrup

WYOMING

Martha Ulrich
William Scarborough

NATIONAL ECONOMIC SITUATION AND OUTLOOK FOR 1966

Talk by James P. Cavin, Director
Economic and Statistical Analysis Division
Economic Research Service
at the 43rd Annual Agricultural Outlook Conference
Washington, D.C., 11:00 A.M., Monday, November 15, 1965

I

Let us begin by taking a look at how the U.S. economy has performed since last fall and during the current expansion.

The Gross National Product for the third quarter of this year attained an estimated annual rate of \$677 billion. This is about \$42 billion or about 6 1/2 percent higher than the same quarter of last year. Even after allowing for a rise in the general price level, the increase in real terms was nearly 5 percent. (Figure 1.)

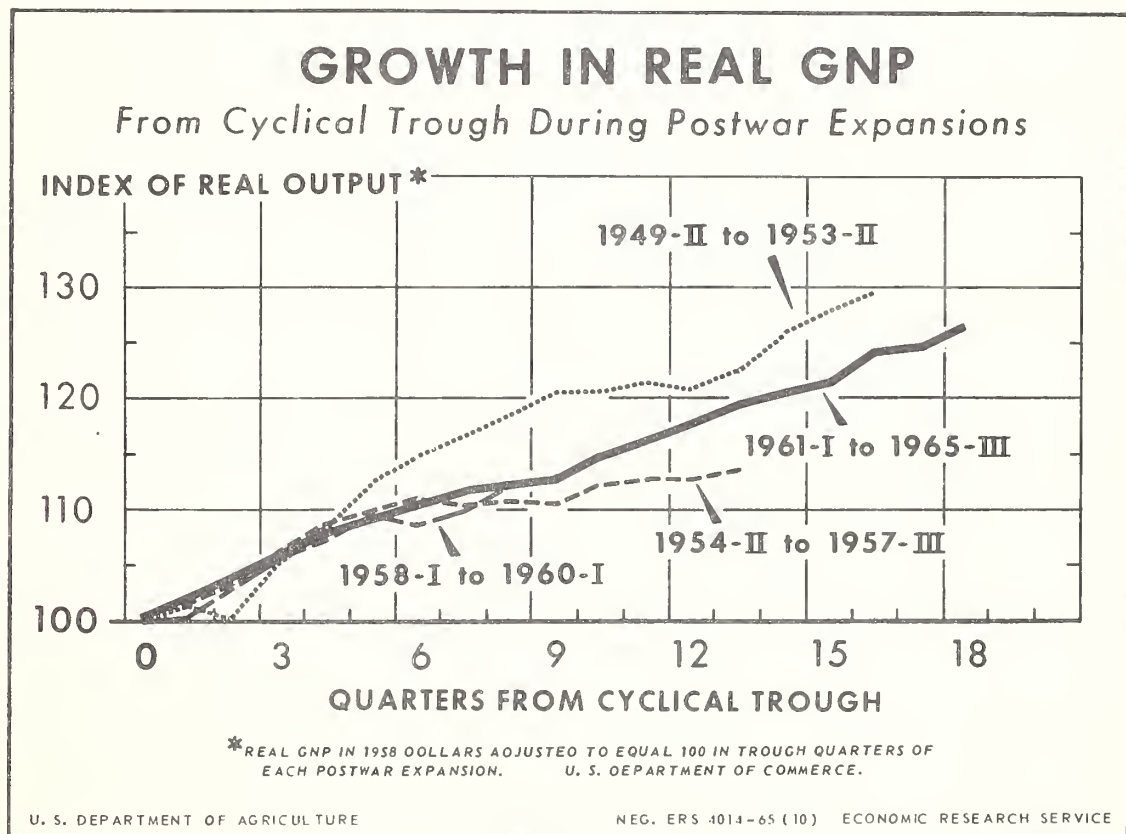


Figure 1

We have now completed the 18th quarter of continuous economic growth--the longest peacetime expansion on record. The growth in real output since the first quarter of 1961 has totaled 26 percent. This is larger than in any other postwar upswing except the 29 percent advance in the GNP during 1949-53, which included the Korean conflict. The gain in the 1954-57 expansion was 13 percent, and in 1958-60 it was 12 percent. The end product of the current expansion, also in real terms, has been a rise of about 27 percent in the total disposable income of consumers and nearly 19 percent in their income per capita.

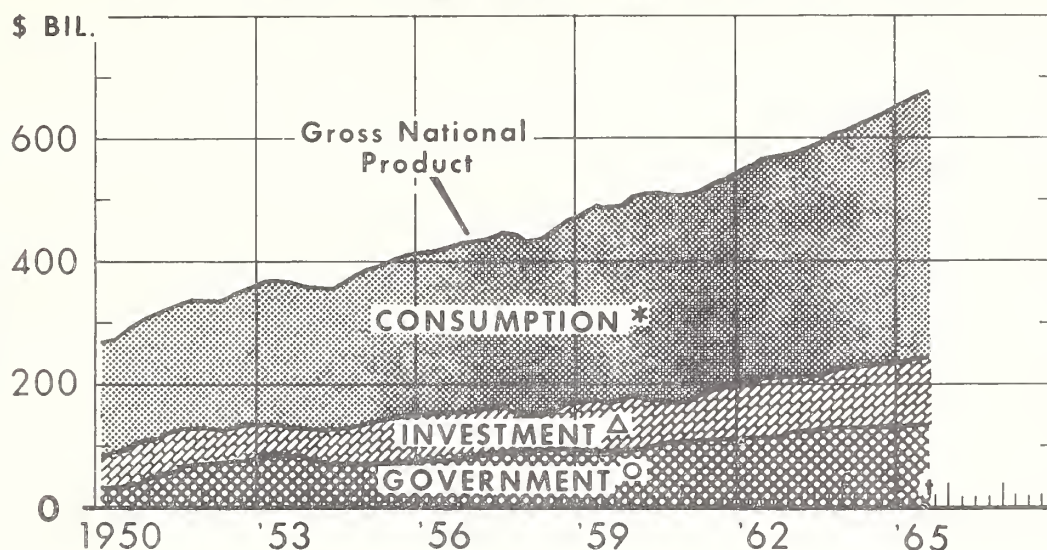
Private domestic investment, government purchases, and personal consumption expenditures have all contributed to the 1965 advance. (Table 1 and Figure 2.) Without going into details, it may be noted that gross private domestic investment in the third quarter of this year totaled nearly \$102 billion on an annual rate basis. This was over \$9 billion, or about 10 percent, above the third quarter of last year.

Table 1.--Gross national product, selected periods, 1963-65

(Billion dollars except as noted)					
Item	:	:	:	Percent change	
	:	:	:	:	:
	:	:	:	:	:
	1963	1964	1965	1963	1964
	III	III	III	to	to
	quarter:	quarter:	quarter:	1964	1965
	:	:	:	:	:
Gross national product	593.1	634.8	676.9	7.0	6.6
Consumer expenditures	376.6	404.6	432.2	7.4	6.8
Durables	54.1	60.5	65.4	11.8	8.1
Nondurables	169.2	179.8	191.0	6.3	6.2
Services	153.3	164.3	175.9	7.2	7.1
Gross private investment	87.9	92.6	101.8	5.3	9.9
Total fixed investment	82.1	88.8	95.7	8.2	7.8
Residential structures	26.9	27.2	27.6	1.1	1.5
Nonresidential structures	20.0	21.1	23.2	5.5	10.0
Producers' durable equipment	35.1	40.5	44.9	15.4	10.9
Inventory change	5.8	3.8	6.1	1/N.A.	1/N.A.
Net exports	5.7	8.8	7.8	54.4	-11.4
Government expenditures	123.0	128.7	135.1	4.6	5.0
Federal	64.2	64.9	67.3	1.1	3.7
State and local	58.8	63.8	67.8	8.5	6.3
GNP price deflator (1958=100)	107.1	109.0	111.1	1.8	1.9

1/ Not applicable.

MAJOR SOURCES OF DEMAND



* PERSONAL EXPENDITURES. ▲ GROSS PRIVATE DOMESTIC INVESTMENT PLUS NET EXPORTS.
 ○ FEDERAL, STATE, AND LOCAL GOVERNMENT PURCHASES OF GOODS AND SERVICES.
 QUARTERLY DATA AT SEASONALLY ADJUSTED ANNUAL RATES, CURRENT DOLLARS.
 U. S. DEPARTMENT OF COMMERCE. † 3RD QUARTER 1965 PRELIMINARY.

U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 1492 X-65 (10) ECONOMIC RESEARCH SERVICE

Figure 2

Government purchases of goods and services totaled about \$135 billion. The rise here was \$6.4 billion or 5 percent. Expenditures by State and local governments accounted for \$4 billion and federal expenditures for \$2.4 billion. Of this, \$1.4 billion occurred from the second to the third quarter of this year as a result of increased defense spending.

The largest part of the dollar increase in GNP was in consumer expenditures. For the third quarter of this year, they are now estimated at \$432.2 billion. This is nearly \$28 billion, or about 7 percent above the same period of last year.

The rise in total economic activity has been accompanied by increases in employment, wages and consumer incomes. Civilian employment in the third quarter averaged 72.4 million on a seasonally adjusted basis--up 2 million from a year earlier. Unemployment averaged 4.5 percent of the civilian labor force compared with 5.1 percent in the third quarter of last year. By the end of the last quarter, average weekly earnings in manufacturing were up about \$3.50 from a year earlier. Consumer disposable income for the third quarter reached \$471 billion on an annual rate basis. This was \$31 billion or 7 percent above the same period of 1964. Retroactive payments to cover increased social security benefits contributed to this sharp advance.

The sharp rise in consumer expenditures previously mentioned largely reflects the advance in consumer incomes. However, a rising volume of consumer credit, the excise tax cut, and the continuing effects of the 1964 income tax reduction have enlarged the influence of consumer spending, which has been a major expansionary force during the upswing that dates from the first quarter of 1961. The influence of the income tax cut is especially noteworthy. From early 1961 to early 1964, consumers increased their purchases about \$5 billion a quarter; since the tax cut, the increase has been stepped up to about \$7 billion a quarter. (Table 2 and Figure 3.)

Table 2.--Consumer income and related series, selected periods, 1963-65

Item	Unit or base period	1963	1964	1965	Percent change	
		III	III	III	1963	1964
		quarter	quarter	quarter	to 1964	to 1965
Employment total 1/	: Million	69.0	70.5	72.4	2.2	2.7
Disposable personal income 1/	: Bil. Dol.	406.1	440.3	471.3	8.4	7.0
Total personal outlays 1/	: do.	386.3	415.3	444.1	7.5	6.9
Personal savings 1/	: do.	19.8	25.0	27.2	26.3	8.8
Food expenditures 1/	: do.	77.4	81.6	<u>2/</u> 86.8	5.4	6.4
Percent of disposable income	: Percent	19.0	18.5	18.4	---	---
Consumer food prices 1/	: 1957-59 = 100	105.9	107.1	110.1	1.1	2.8
Per capita food consumption	: Annual average (1957-59 = 100)	101.1	102.2	<u>2/</u> 101.6	1.0	-.1

1/ Seasonally adjusted.

2/ Estimated.

Ample supplies of credit have been available at relatively low interest rates during most of the current expansion. There has been some pressure on interest rates during the past few months due to the combined effect of an acceleration in the demand for bank credit and, until recently, a slightly slower growth in the money supply. The money supply has shown a marked increase since June, and in October was 4.3 percent above a year earlier.

Rather marked price rises have occurred this year. During the first 4 years of the present economic expansion, wholesale prices were virtually stable, while consumer prices trended slowly upward at about 1.2 percent a year. In the last 12 months, wholesale prices have risen 2.3 percent and

consumer prices 1.7 percent. In the case of the latter, services accounted for 55 percent of the rise and food for 30 percent.

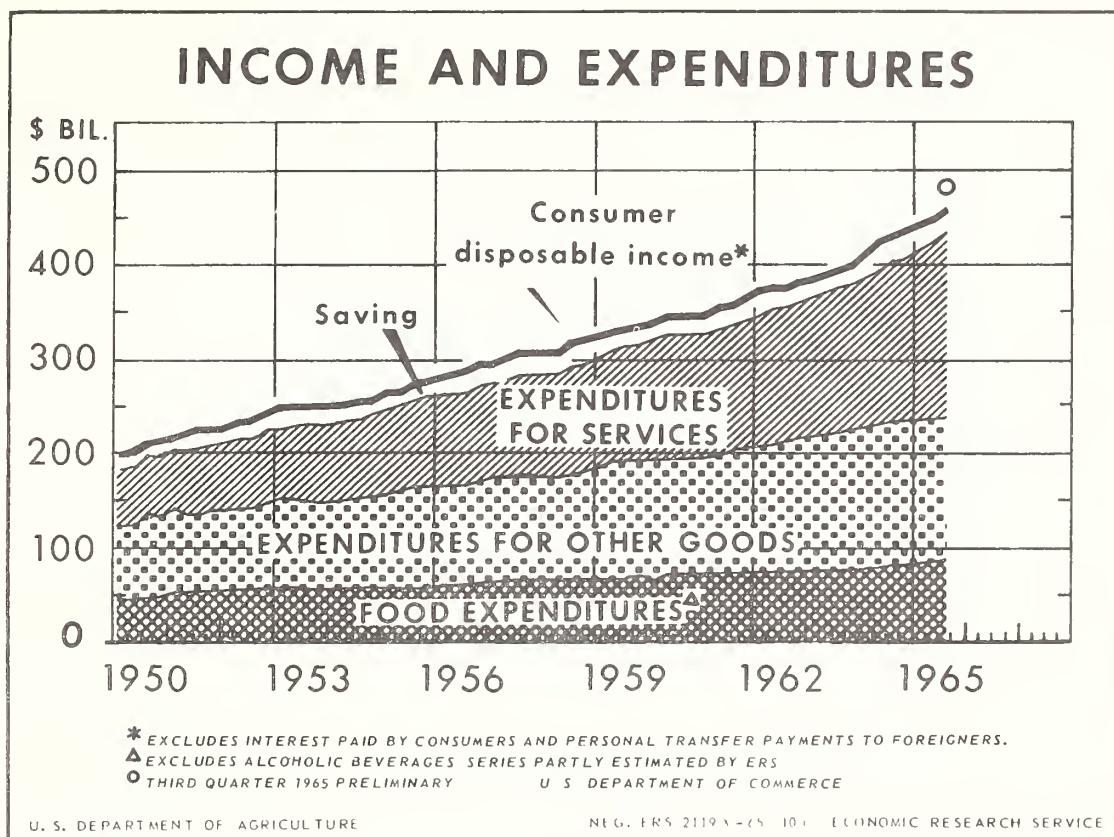


Figure 3

Because of the great amount of attention that food prices have received, it may be well to note what has happened to consumer expenditures for food. (Figure 4.) They are expected to total about \$85 1/2 billion in 1965, compared with \$81 billion last year. This increase of \$4 1/2 billion, or nearly 6 percent, compares with an increase of slightly under \$4 billion, or about 5 percent from 1963 to 1964. About half of the increase in food expenditures this year is attributable to the rise in retail food prices. This rise resulted from the sharp advance of prices at the farm level, largely due to reduced supplies of red meats, potatoes and spring vegetables. This is in contrast to the situation in recent years when most of the rise has been due to larger marketing charges. Per capita food consumption declined about half of 1 percent, while total food consumption rose about 1 percent. However, the percentage of disposable personal income going for food this year is expected to remain near the 1964 level of 18 1/2 percent--the lowest on record.

II

Prospects for 1966 indicate a further increase in the Gross National Product in line with the increase that has taken place from 1964 to 1965.

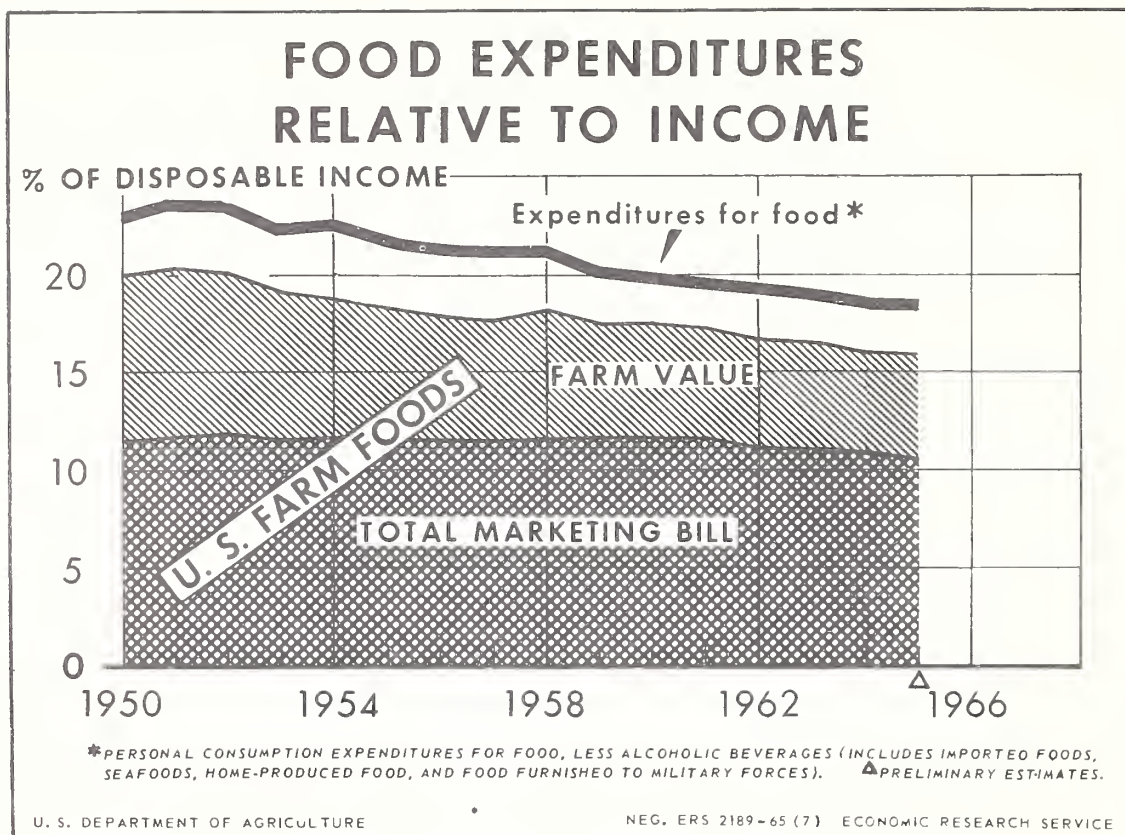


Figure 4

This will be accompanied by advances in total employment and consumer incomes. Increased private investment in new plant and equipment; larger government purchases of goods and services; and further expansion of consumer expenditures are expected to make the most significant contributions to the general advance. No large changes are expected in residential construction and net exports of goods and services.

General anticipations of further expansion of aggregate demand and favorable levels of corporate profits should encourage increased investment in new plant and equipment during 1966. Corporate profits after taxes, in the third quarter of this year are estimated at an annual rate of \$45 billion or 20 percent higher than in the third quarter of 1964. Business forecasts of expenditures for new plant and equipment in the fourth quarter of this year are 11 percent above actual expenditures in the fourth quarter of last year. (Table 3 and Figure 5.)

We now have the results of the McGraw-Hill Survey, which indicates that industry purchases of plant and equipment will be an even stronger factor in 1966 than they were this year and last. According to this survey, industry plans to spend nearly \$55 billion for plant and equipment next year. This is \$4 billion higher than estimated capital spending this year and more than \$10 billion over 1964.

Table 3.--Business indicators, selected series, 1963-65

(Billion dollars except as noted)

Item	1963	1964	1965	Percent change	
	III	III	III	1963	1964
	quarter	quarter	quarter	to	to
				1964	1965
Industrial production (1957-59=100)	125.6	133.8	143.8	6.5	7.5
Total expenditures, new plant and equipment	40.00	45.65	1/ 51.15	14.1	12.0
Manufacturing	15.95	18.85	1/ 22.00	18.2	16.7
Corporate profits, after taxes	32.8	37.5	2/ 45.0	14.3	20.0
New orders, durable goods	18.2	20.2	2/ 21.2	11.0	5.0

1/ Estimated base on anticipated capital expenditures as reported by business in late July and August 1965.

2/ Estimated by ERS.

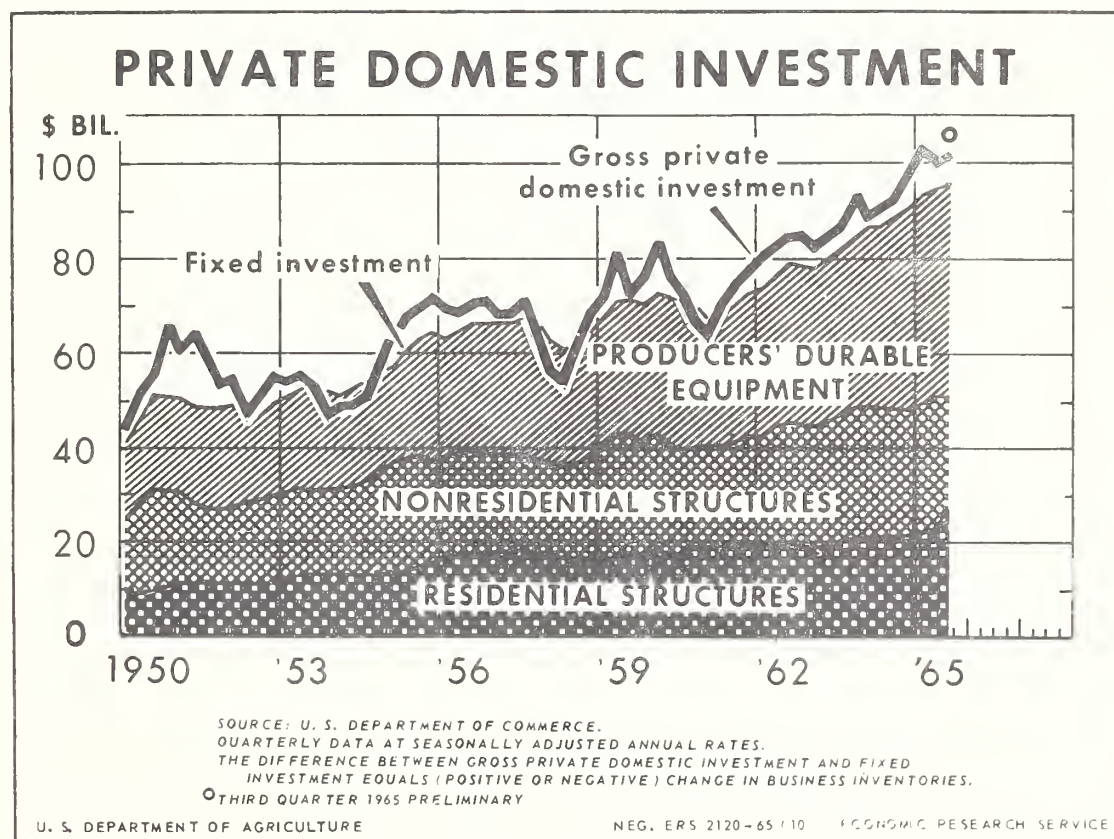


Figure 5

The inventory picture is somewhat different than that for investment as a whole. The rate of inventory accumulation in the third quarter is \$6 billion on an annual rate basis. This is higher than in the same period last year but a drop from the rate of \$6.7 billion in the second quarter. Much of this slowdown appears to have been due to the labor settlement in the steel industry which eliminated the need for further accumulation of stocks against the possibility of a strike. Some further liquidation of steel inventories is anticipated, but this is not expected to halt the overall growth of business inventories in 1966 or to interrupt the general economic expansion.

Government demands for goods and services are expected to provide some additional upward thrust in the coming year. Total government purchases have been rising around \$1.5 billion per quarter since the end of 1962. Most of this has come from increased spending by State and local governments for schools, roads, and other public facilities. Federal spending has been relatively stable during most of this period but this has accelerated in recent months as a result of larger defense outlays.

The steady uptrend of State and local outlays is expected to continue in 1966. A further rise in the rate of federal spending, largely because of expanding defense requirements, is also anticipated. In addition, new federal programs affecting housing, education, recreation, health, and regional development programs, such as that for Appalachia, will directly or indirectly contribute to greater economic activity. (Figure 6.)

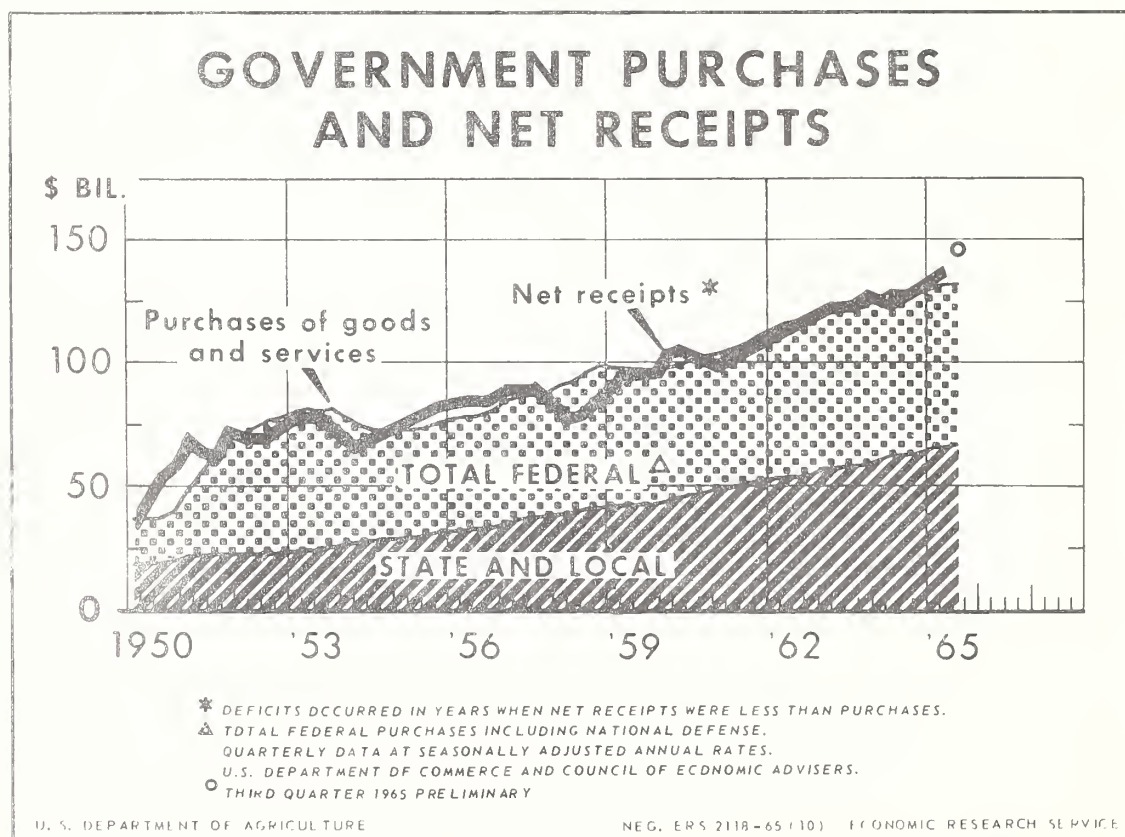


Figure 6

The further advances in output and employment looked for in 1966 will be accompanied by a rise in consumer disposable income which should at least match the percentage rise in GNP. Furthermore, consumer incomes are currently being bolstered by higher wage rates for larger numbers of workers in trade and industry; the 7 percent increase in regular monthly benefits under Social Security; and larger government payments resulting from the military and civilian pay bills; the continued effect of these factors will help to offset the impact on consumer income of the increased Social Security taxes which are scheduled for January 1966. In the second half of 1966, benefit payments under the Medicare Program will provide new supplements to consumer income.

This anticipated rise in consumer income will be paralleled by further increases in consumer expenditures. Recent surveys of consumer buying intentions indicate continuing large outlays for automobiles and other durables; while the second installment of the excise tax cut of \$1-3/4 billion scheduled for next January should provide added stimulus for consumer purchases.

The increase in food expenditures is not expected to be as large as the 6 percent gain registered in 1965. In these circumstances, the percentage of income spent for food will resume its declining trend. Retail food prices may again increase, but not as much as this year. Meat prices are expected to average higher as per capita supplies again decline. But potato prices likely will drop considerably. Prices of fresh vegetables, citrus and poultry are also expected to average below the high levels of this year. Per capita food consumption is expected to average about the same as this year, but still fractionally below 1964.

Continuation of the current economic advance is rather generally anticipated in 1966, but there has been a noticeable amount of concern with two aspects of the nation's economy. One is the U.S. balance of payments; the other is the movement of wholesale and retail prices, which have risen above their long-time trends this year.

The U.S. balance of payments improved considerably in the second quarter. On a seasonally-adjusted, annual rate basis, a surplus of \$0.5 billion on regular transactions was recorded. This was a striking improvement over the first quarter deficit of \$3.1 billion. Major factors improving the balance of payments in the second quarter were a substantial decline in the outflow of U.S. private capital, and an increase in the net exports of goods and services.

Many unpredictable factors, frequently of a short-run nature, affect changes in the balance of payments, and little can be gained by attempting to forecast the movements in the complex of transactions that determine the final balance. However, it seems probable that merchandise exports will continue to be an important positive influence during the coming year. The value of agricultural exports in the fiscal year ending June 30, 1966, is expected to exceed the high level of the past two years, with dollar sales accounting for a somewhat larger proportion of the total. In addition, it is expected that manufactured goods will continue to maintain their competitive position in world markets.

On the question of price stability, the concern stems from such developments as the rapid expansion of aggregate demand, the rise in the utilization rate of manufacturing capacity, further increases in wage rates, and expenditures related to the conflict in Vietnam.

However, important factors making for price stability will be present in 1966. The anticipated rise in business investment means a further expansion of industrial capacity; advances in wages have been matched generally by increased productivity, which has tended to stabilize average unit labor costs; it is not anticipated that the 1965 spurt in food prices will be repeated; and required increases in defense expenditures will affect limited sectors of the economy.

To get some perspective in this matter, it may be noted that defense expenditures account for a much smaller proportion of the gross national product than they did a decade or so earlier. For example, defense expenditures accelerated by the Korean conflict reached a peak of \$48.7 billion in 1953 and represented about 13 percent of the GNP. On the other hand, the defense outlays of \$50.8 billion reported for the third quarter of this year represent only about 7 1/2 percent of the GNP. Thus, further stepups in defense spending in 1966 would not represent as large a proportion of aggregate demand as in the earlier years of the postwar period.

Taking all factors together, we look to 1966 as another year of vigorous and generally well-balanced economic growth.

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This is a happy occasion for me.

It is the mid point of the decade of the '60's. It is a good time to take stock and see where we started, where we are and where we will be when this dramatic decade of progress closes in 1970.

These are optimistic times for agriculture ... for rural America ... and for the Nation.

Farm income is up. In fact, net farm income will reach \$14 billion this year. This plateau has been exceeded only five times in this century.

Next year will be even better, according to the outlook material before you.

The real cost of food, as measured by the proportion of family income spent to acquire it, is lower than ever before -- and the quality and variety is greater than ever before.

Grain surpluses have been nearly eliminated, the tobacco carry-over has turned down, and, even with large stocks of cotton, the carryover stocks of farm commodities are the lowest since 1957.

Farm exports are at record levels, substantially exceeding our 1961 estimate, and now account for one out of every six dollars the farmer earns from the sale of his products.

Address by Secretary of Agriculture Orville L. Freeman at the 43d Annual National Agricultural Outlook Conference, Thos. Jefferson Memorial Auditorium, Washington, D. C., Monday, November 15, 1965, 9:40 a.m., EST.

The Congress this year has enacted a sweeping new farm program in the Food and Agriculture Act of 1965 which involves basic changes in farm policy. This legislation extends over the next four years, something never before done in farm programs.

The strategic importance of agriculture to the health of our economy and to our influence in world affairs is more fully recognized. Never before has a President asked a Secretary of Agriculture to head a committee made up of the Secretaries of State, Commerce and Labor to advise him on agricultural policy of the future -- its impact on the domestic economy and our foreign policy -- and appointed a commission of citizens so broadly representative of the Nation's economic interests to participate in this effort.

We have come a long way since my first appearance before this conference four years ago.

The prevailing mood in agriculture that year was one of pessimism. It reflected a concern among farmers over the direction of farm policy and an apathy among urban Americans who saw farm policy as an issue where no answer existed.

The American farmer had achieved unparalleled success in making the land produce an abundant harvest year after year. Yet, most people had become convinced that this success was more of a problem than an enormous achievement, and few people understood that the real problem grew out of our failure to use fully the opportunities which abundance provides.

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This was the beginning of the struggle to devise farm policies which would improve farm income and at the same time make better use of abundance -- which would bring a better balance between production and use of food and fiber and at the same time reduce surpluses and the cost they placed on the American taxpayer.

We have had to face the arduous task of obtaining major farm legislation each year, starting with the Emergency Feed Grain Act of 1961.

We have come through a period of trial every step of the way, for the task was to develop programs which would work -- but first would pass the Congress, and then would meet acceptance by farmers -- and the Nation's Consumers and taxpayers.

Outlook work was not easy during this period, and I appreciate the difficulty this imposed on you -- particularly when an impatient Secretary of Agriculture demanded answers to questions where the best response was only an educated guess.

I believe, however, that when agricultural historians come to review the decade of the sixties, they will agree that the Food and Agriculture Act of 1965 was a major turning point -- a major breakthrough -- in farm policy.

This claim can be verified on several different levels.

No farm legislation in recent years had so much bi-partisan support as the Food and Agriculture Act of 1965 received.

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There are very few people today -- and certainly many fewer than in 1960 -- who take the position that farm programs are not needed.

There is broader recognition that any agricultural system must provide the individual farmer with maximum flexibility to use his judgment and managerial skill.

Thus, the extremes have been cut away from farm policy issues, and a broad base of support for present policies has been achieved.

On another level, there is more recognition that farm programs are as vital to urban people and to the world interests of this country as they are to farmers and the rural community.

This reflects, I believe, a deeper understanding of the meaning of abundance -- and the opportunities and responsibilities which abundance creates for those who seek and achieve it.

Abundance, by definition, implies a condition where there is more than enough food for every person and the capacity to produce more than enough. No degree of planning can insure precisely the amount of food required for every person. This would require perfect control of all elements of production, including weather, as well as precise control over the amount of food each person consumes.

No system has been devised to achieve this kind of perfection. Therefore, overproduction is always a threat to the producer who makes abundance possible.

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The American farmer -- the family farmer -- has achieved true abundance. But he has done it through an economic system that tends to levy a terrible penalty for abundance -- that is, for producing slightly more than enough.

He lives in a marketplace where abundance is treated as excess production -- where efficiency and productivity can bring ruin more easily than wealth.

You economists have a clinical name for this condition. You call it inelasticity of demand. For every percentage increase in production of farm commodities beyond the point where needs are satisfied, the price of farm commodities will fall on the average by 4 percent. This condition is further complicated by the organization -- or lack of it -- in agriculture. With a system of family farms, no individual farmer can improve his return by a decision to reduce production since his individual action has no effect on market prices.

In the past this has meant that few farmers were able to earn parity of income -- or a return for his investment, skill and labor comparable to that which these resources could earn in other occupations. Five years ago, even with farm programs, few farmers earned parity of income. Today, the progress of the past four years has meant that nearly a half-million farmers earn parity of income.

The essential task of farm policy -- while it has appeared to be designed for the farmer alone -- has been to find some special glue

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to hold together an agricultural industry that can be both productive and prosperous. What has evolved in the Food and Agriculture Act of 1965 is a balancing mechanism to assure abundance within a system which is not a natural host.

The Food and Agriculture Act of 1965 draws on the experience of three decades of farm programs designed to make possible continued abundance of food and fiber at a minimum cost to the taxpayer, at reasonable prices to consumers and at a fair return to the producer.

It puts this Nation well along the road toward a basic change in farm policies, for, despite similarities in appearance and purpose with previous legislation, the new legislation provides a new approach to farm policy.

Specifically, the provisions of the Act of 1965 represent a shift in policy away from price supports for the major commodities at levels above world market prices -- a policy which has characterized commodity programs since before World War II -- to a policy of using the market, both domestic and foreign, to the maximum by setting price supports as close to the market levels as possible.

At the same time, farm income will be strengthened through provisions for direct payments to farmers who cooperate by diverting productive acres to other uses. While direct payments to cooperating producers in combination with a market price support loan is not a new concept, extending its use to cotton as well as feed grains and wheat is a major breakthrough.

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Another important feature of this legislation is a Cropland Adjustment Program which will be carefully tailored to supplement the individual commodity programs -- and to reduce their cost. Equally important, this program breaks new ground toward improved urban-rural relations. It encourages farmers to develop conservation practices which will increase wildlife, and to open their lands to urban sportsmen. It also will provide more open space for recreation and beautification, and will enable States and local communities to obtain new land to meet the rapidly growing demand for outdoor recreation.

The new legislation also provides a dairy program which will enable producers in Federal Milk Marketing Order areas to reduce surplus milk production.

The primary value of the new policy can be summed up in one word: Flexibility.

While the policy emphasis has been to restrain production, this legislation can effectively trigger an increase in production if it is needed. The authority exists to bring back into production the more than 50 million acres presently diverted from crop production. If the need arose, for example, we could double the Nation's wheat production in two years -- with most of the increase in the first year.

Individual farmers will have greater flexibility in the management of their operation, with a broader range of alternatives to consider in determining the course that seems best for their individual needs. With a four-year program, the farmer can plan ahead with greater assurance than ever before.

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With the new policy, increased reliance will be placed on market demand as the key factor in market pricing. This means that the farmer will be able to price his products competitively in both domestic and world markets, and that the daily business of acquiring and disposing of surpluses through Government channels will be greatly diminished.

This new approach will encourage maximum domestic use of farm commodities -- and slow the development of substitutes, and it will also enable the farmer to gain a stronger position in world trade. These programs, for example, take a big step toward fulfilling our obligation under the General Agreement of Tariffs and Trade to use export subsidies as sparingly as possible in gaining a fair share of world markets.

No policy, however, can be fully understood, nor its impact adequately forecast, unless it is judged against the conditions we expect will prevail in the years immediately ahead.

Let me list some of these briefly:

First, the abundance revolution -- the explosion in productivity which began in the early 1950's -- will continue unabated. Change, rapid change, will continue to be the dominant characteristic in American agriculture.

Second, our capacity to produce will continue to exceed our ability to consume or to export. Increasing prosperity at home will cause some shifts in consumption patterns, but consumption of food will increase only about as fast as our population grows.

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Third, world markets will grow more rapidly than domestic markets. A rising level of incomes in other Nations will bring new export opportunities to American agriculture, and the failure of agriculture in Communist Nations to provide adequate supplies of food will add a new dimension to world markets.

Fourth, we will continue to maintain adequate reserves of food and fiber, as opposed to unneeded surpluses, to respond to any need at home or abroad, and we will preserve the capacity to expand production substantially.

Fifth, we will continue to make better use of our food abundance as an instrument of American foreign policy and humanitarianism as we also help other countries to improve their own agriculture and avoid disruption of world commerce.

In this context, the new farm policy of the Act of 1965 will enable agriculture to insure that:

* The American people will eat better and at less real cost by 1970 than they do today. More than 195 million American people today enjoy an abundance of the highest quality food of any Nation, and they spend about 18.5 percent of their disposable income for it -- less than in any other Nation. By 1970, more than 209 million Americans will be eating more meat, poultry, fresh fruit and vegetables, and will be spending about 17 percent of their disposable income for it.

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As a result, a family of four will have about \$160 additional income to spend for other purposes because the real cost of food will be lower than it is today.

* Grain surpluses will disappear before 1970, and the surplus in cotton and tobacco will be substantially reduced.

* Farm exports will continue to expand. Exports this year are pushing beyond \$6 billion to a new record, and will exceed 1960 levels by more than \$1.5 billion. By 1970, farm exports could well increase another \$1.5 billion to beyond \$7 billion, with most of the increase in dollar sales.

* Net farm income over the next four years will average nearly \$2 billion a year higher than during the latter half of the 1950's. Net income per farm will be more than \$4,100 this year, or about 40 percent higher than in 1960. Per capita income of farm people increased 35 percent, while non-farm income per person rose about 20 percent, over the same period. The income gap between farm and non-farm people is narrowing and will continue to draw closer together in this decade.

* The Food for Peace program will become an instrument of greater strategic importance in American foreign policy by 1970 than it is today. The program will continue to guard against famine, and it will provide increasing means of assisting the developing Nations to improve their agricultural capacity.

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Four years ago these projections would have been described as the idle speculation of a perpetually optimistic dreamer. Today, because of the back breaking effort of a great many people, they seem almost cautious.

But four years ago, few people understood the true significance of the unbelievable success of the American farmer. Today, because we have tried to be as imaginative in applying the power of this achievement as the farmer has been in producing this abundance, we have begun to realize some of the potential of abundance.

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United States Department of Agriculture
Economic Research Service

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THE AGRICULTURAL OUTLOOK FOR 1966

Talk by Rex F. Daly

Chairman, Outlook and Situation Board

assisted by

Robert E. Olson, Norman J. Wall, Robert L. Tontz,
Dewain H. Rahe, and Donald D. Durost, Economic Research Service;

Jean L. Pennock, Agricultural Research Service;

Elizabeth Hight, Consumer and Marketing Service;

George A. Parks, Foreign Agricultural Service,

at the 43rd Annual Agricultural Outlook Conference

Washington, D. C., 10:10 A.M., Monday, November 15, 1965

Agriculture has fared well this year, and there are solid reasons for expecting another good year in 1966. Realized net farm income--income above production expenses--is estimated at \$14 billion this year, the highest since 1952. And we now expect that 1966 will be even better. A favorable price and income outlook for livestock, the new farm legislation, and expanding markets point to a continued rise in realized net farm income of possibly 1/4 to 1/2 billion dollars above the improved 1965 level. Realized net income per farm and per capita disposable income of the farm population will be at record highs in 1965 and likely even better in 1966. In the last 5 years, these series show gains of 40 and 35 percent respectively. Per capita nonfarm income rose 20 percent during that period.

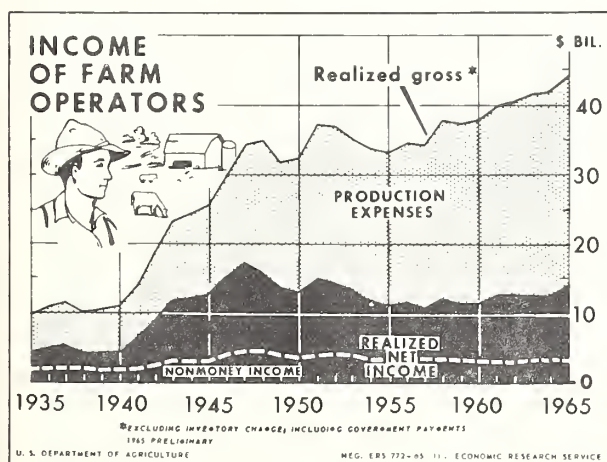
Review of 1965

Before moving into a more detailed discussion of the outlook for 1966, let us outline factors providing the thrust for rising farm income this year. Sharp advances in prices and cash receipts for livestock contributed most of the income rise this year, but there were gains for most major commodities:

A 4-percent reduction in per capita red meat supplies, in an expanding domestic market, resulted in sharply higher prices for hogs, cattle, and lambs. Meat animal prices this year are averaging 15 percent above 1964. Prices for poultry also increased earlier this year and producers responded with a step-up in production to a rate by the third quarter 9 percent above a year earlier. Recent hatchings indicate an even larger gain for the fourth quarter. An overall 7-percent increase in slaughter from 1964 is indicated, but even so, poultry prices this year will average around 5 percent above 1964.

Among the crops, prices of 1964-crop soybeans and feed grains have held through most of 1965 at levels well above a year earlier due in large measure to strong domestic and export markets. Smaller supplies resulted in sharply higher prices earlier this year for potatoes and early spring vegetables.

With higher average prices this year, cash receipts from marketings



through September were up more than 5 percent from 1964. Including Government payments, total cash receipts are running above 1964 for all major commodity groups except citrus and tobacco.

Some of the forces and conditions contributing to higher prices and incomes in 1965 will continue into 1966: (1) The production and price outlook again looks favorable for livestock producers; (2) the new Food and Agriculture Act of 1965 will provide some increase in income, especially for crops; and (3) domestic demand and exports likely will continue to expand in 1966.

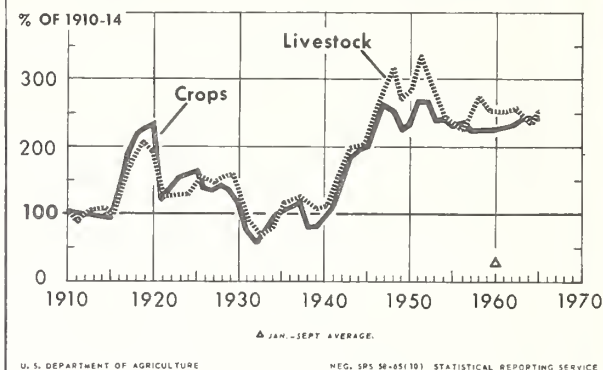
Livestock and Products

Production of livestock and livestock products has trended upward rather persistently since 1950. However, there was a slight decline in 1965 and we expect only a small overall gain in 1966.

Production increases since 1950 have been most rapid for poultry and beef. Total pork output has held relatively stable so per capita supplies have trended downward. Per capita use also has been declining for dairy products and eggs since 1950. The reduction in hog production in 1965 and a continued decline in production of lamb more than offset the sharp rise in production of poultry. There was little change in production of beef, dairy products and eggs from 1964 levels.

We expect that the supply of feeder cattle in early 1966 will total about the

PRICES RECEIVED FOR ALL CROPS AND LIVESTOCK AND PRODUCTS

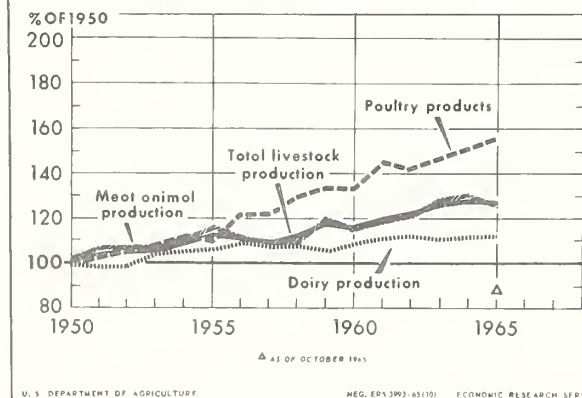


same as a year earlier. There will be more steers, but fewer heifers. With more feed and generally favorable feeding margins, production of fed beef is expected to increase. But the gain may be partly offset by smaller production of nonfed beef. As a result, prices to producers are expected to continue strong in 1966 and may average slightly above 1965.

Hog slaughter is expected to continue below year-earlier levels well into 1966. The number of hogs and pigs on farms in the 10 Corn Belt States in September was 12 percent below a year earlier. Moreover, the number of sows farrowing in these States in June-November 1965 is expected to be 8 percent smaller than a year earlier. With continued light slaughter supplies in view, favorable prices to producers are in prospect well through 1966. Hog producers are beginning to take steps to reverse the down-trend in hog production that began in 1963. However, the expected modest increase in spring farrowings next year would bring a relatively small gain in production by late 1966. But if late spring and fall farrowings increased by 10 percent or more, larger supplies could result in sharply lower prices by late 1966 and in 1967.

Supply prospects for red meat and growing markets suggest a continued strong demand for poultry. Although producer prices for poultry are expected to average lower, cash receipts will likely increase again in 1966. The current buildup in broiler hatchery supply

LIVESTOCK PRODUCTION



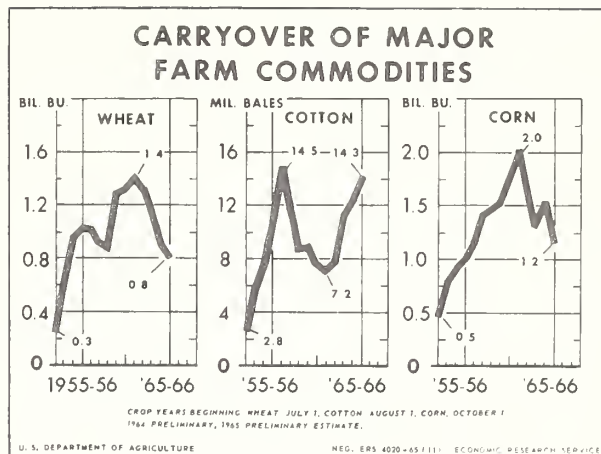
flocks and lower feed prices provide the basis for a greatly expanded output potential in 1966. If demand expands as expected, broiler production probably will continue into next year at a rate some 10 percent or so above the early months of 1965. Continued large production increases in 1966 would put pressure on prices, particularly later in the year as supplies of red meat begin to increase.

The indicated small increase in live-stock production and expanding domestic markets point to producer prices in 1966 averaging a little above this year. Although a further gain in cash receipts is in prospect for 1966, the increase will likely be much smaller than the big one and three-quarter-billion dollars--9 percent--increase now indicated for 1965.

Crop Supplies and Prices

Crop harvests this year are bringing a sharp advance in output as crop yields per acre recover from the drought-depressed levels of 1964. With virtually no change in the acreage used for crops, output of food and fiber crops this year is estimated around 7 percent larger than in 1964 and 4 1/2 percent above the previous high in 1963.

Indicated increases in production from 1964 are nearly 18 percent for feed grains, 23 percent for soybeans, and 25 percent for the important fall potato crop. The 1965 wheat crop is up about 5 percent from 1964; and the hay crop, 6 percent. And another big cotton crop is in prospect. Among the major groups of

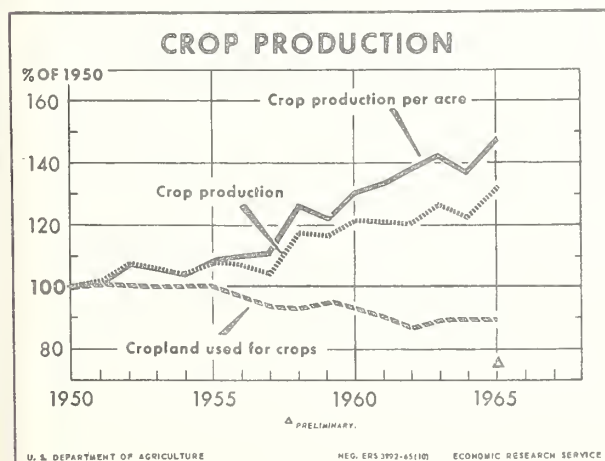


commodities, smaller production is indicated only for sugar crops and tobacco.

Carryover stocks of grains have been reduced materially in recent years. Limitations on wheat output and expanded utilization, particularly for export and domestic feed use, reduced the carryover from some 1,400 million bushels in 1961 to 819 million this year. A further reduction of possibly 70 million bushels is now indicated for the 1965-66 marketing year. Similarly, the carryover of feed grains was reduced from nearly 85 million tons in 1961 to 55 million in 1965. Although feed grain use is expected to increase in 1966, the big 1965 crop may push the carryover to around 60 million tons by next October.

In contrast, cotton production continues to exceed utilization. Stocks of upland cotton rose by nearly 2 million bales to 14 million last August. A small increase in domestic use of cotton is expected in the 1965-66 marketing year, but exports may be down slightly. With another big cotton crop now estimated for 1965, stocks are expected to increase sharply in 1966, perhaps by another 2 million bales above already burdensome 1965 stocks.

As the larger 1965 crops began moving to market, prices declined for a number of major crops. The all-crop index of prices received averaged in October nearly 6 percent below a year earlier. Soybean prices were down 9 percent, cotton 5 percent, and corn about 4 percent from October 1964. Prices



received for potatoes averaged about a fourth lower and orange and grapefruit prices were down to levels about half the high prices of October 1964. Prices in the closing months likely will continue below year-earlier levels and average for the year a little below 1964.

Crop prices probably will continue into 1966 at levels below this year and cash receipts from crop marketings are expected to run somewhat below 1965. But, with increased Government payments to producers cooperating in major farm programs, total returns from crops are expected to be larger in 1966 than this year.

New Food and Agriculture Act

Provisions of the 1965 Act will be a major factor in the outlook for 1966. The general program for grains is similar to those voluntary programs used successfully for wheat and feed grains in recent years. Possibly the most important change in the new legislation is a shift in policies for cotton to a program similar to those for grains. Earlier this year, legislation authorizing a new acreage-poundage program for tobacco was enacted. Flue-cured growers voted to place such a program in effect on their 1965-67 crops.

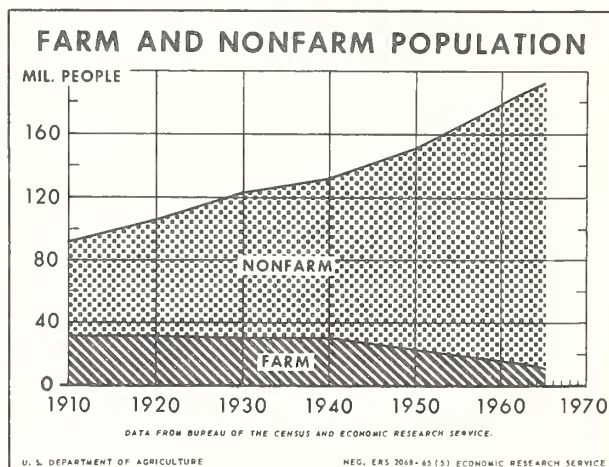
Pricing provisions of the Act provide that the general pattern of price support loan levels for grains and cotton will be aimed at world price levels. This will enable these commodities to compete more effectively in world markets without heavy export payments. Market pricing will increasingly reflect demand and supply forces in the market. The impact of lower prices on income will be offset through greater emphasis on direct payments to cooperating producers. At the same time, provisions of the Act are designed to avoid large carryover stocks by striking a better balance between production and expanding markets.

A new Cropland Adjustment Program authorized by the Act is designed to supplement commodity acreage diversion programs, provide more open space and recreational facilities, assist in the adjustment of farm resources, and help people no longer interested in farming

to move into profitable nonfarm activities. Specific incentives are provided to encourage farmers to share their land and water facilities with town and city people.

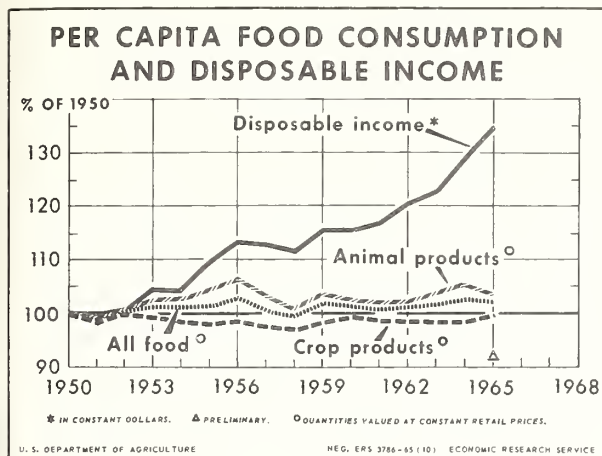
Domestic Markets

Expanding demand was a strategic force in 1965 price and income increases, though possibly a less spectacular influence than reduced per capita supplies of red meat. Total population continues to grow, with most rapid growth in the young-adult age group--18 to 24 years. This means greatly increased enrollment in higher education, more families, and a rapid expansion in the labor force. The rising number of young adults also may quicken the rate of departures from agriculture.



A growing economy and rising incomes will result in increased consumer expenditures for food in 1966. However, we do not expect the rise to equal the large 6-percent increase this year, about half of which was due to higher retail prices. With a further advance in consumer income, the share spent for food is expected to decline again in 1966. Rising consumer incomes step up expenditures for food, but the increase over time has little influence on the index of per capita food consumption. In fact, the slow rise in the index primarily reflects shifts to higher-priced foods; pounds and calories consumed tend to decline slowly.

Reduced supplies of red meat resulted in a small decline in per capita food consumption in 1965. As a result,



the advance in retail food prices and in expenditures for food in 1965 was larger than the usual year-to-year increase. In 1966 per capita food use is expected to remain around this year's level with less use of pork, lamb, and animal fats, but increased use of poultry and such food crops as potatoes and citrus. Little change is indicated for beef, milk and eggs. Retail prices are expected to rise some again in 1966, though much less rapidly than the 2-1/2 percent increase indicated for this year. If per capita supplies of red meat decline as expected, meat prices may average a little higher in 1966. However, with bigger supplies, lower retail prices are indicated for 1966 for poultry, potatoes and a number of fresh fruits and vegetables.

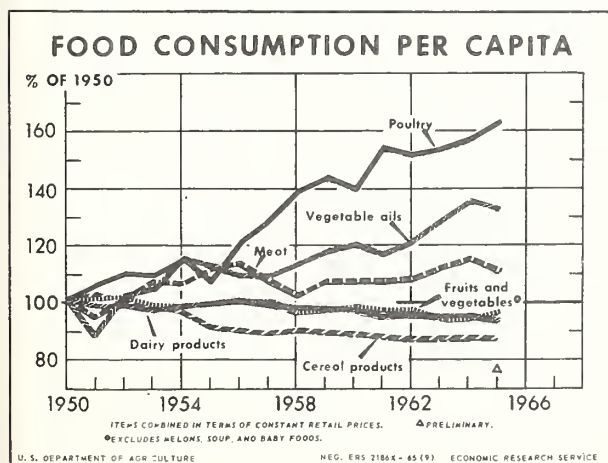
Although total per capita food use changes little from year to year, there continue to be big shifts for individual foods. In the past decade, these shifts in

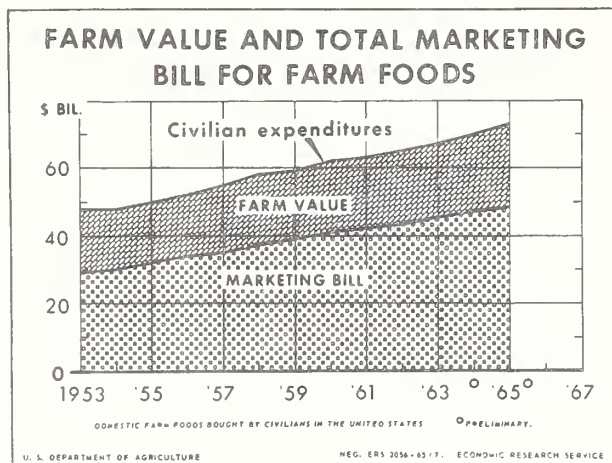
the diet have been toward more beef and poultry; less pork, lamb, and dairy products. Per capita use of vegetable oils has increased while use of animal fats has declined. Substantial increases in processed fruits and vegetables have offset declines in fresh uses. The downtrend continues in per capita use of cereal products.

Commercial purchases of food in 1966 will again be supplemented by such food distribution activities as the National School Lunch, Special Milk, Direct Distribution, and Food Stamp programs. Continued emphasis is being placed on improving nutrition and increasing food consumption among children, low-income families, and those in charitable institutions. An estimated 42 million people are benefiting from these programs. USDA in 1964-65 distributed about 2 billion pounds of food acquired under price support and surplus removal programs. This is about double the amount distributed in 1960. Moreover, the growing Food Stamp Program provided about \$33 million in additional purchasing power to some 633,000 low-income people. This added buying power improved the nutritional level of the families' diets and increased their purchases of such farm products as fruits, vegetables, meats, and fluid milk. These quantities are small relative to total food consumed—probably some 1-1/2 to 2 percent. It is interesting, nevertheless, that the increases in special food programs in recent years accounted for much of the small overall gain in per capita food consumption in the last 4 years.

The farm-retail price spread for marketing domestic farm foods is expected to widen some in 1966 after narrowing in 1965 for the first time in 15 years. The sharp advance in farm prices for red meats, potatoes, and some spring vegetables earlier in 1965 narrowed the farm-retail price spreads. But by the third quarter, these margins had begun to widen. The farmer's share of the consumer's farm-food dollar is expected to average 39 cents this year, some 2 cents above 1964. Little change in the share is indicated for 1966.

The bill for marketing and processing domestic farm-foods rose only 2 percent in 1965, about half the annual





increase during the preceding decade. A rise somewhat closer to the general trend is indicated for 1966. The farm value of domestic farm foods in 1965, reflecting rising prices for livestock, potatoes and some vegetables earlier this year, is estimated at about 9 percent above 1964.

Exports

Export markets have become increasingly important outlets for farm products over the past 10 to 15 years. The volume of agricultural exports is now more than double the average annual volume exported in the period 1950-1955. We now export more than half of the wheat and rice crops, more than 40 percent of our tallow, around a third of the soybeans, cotton, and flue-cured tobacco, and about a fourth of the food fats and oils, as well as a growing share of our feed grain output and substantial quantities of fruits, vegetables, and

some livestock products. With crop exports in recent years equivalent to some 20 to 25 percent of total crop production, exports have become a major and growing market for farm products.

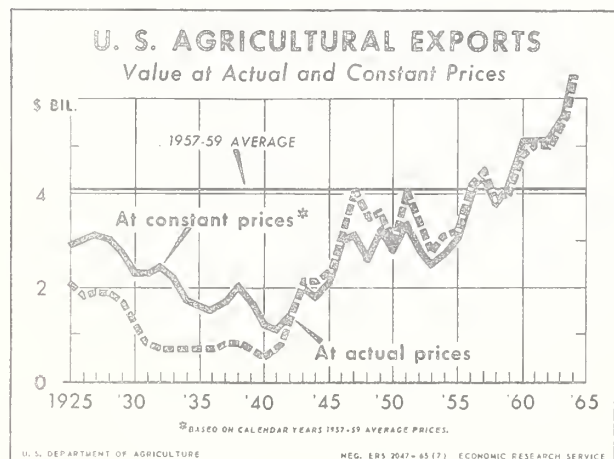
Exports of farm products in July-September were running 7 percent above a year earlier. For the 1965-66 fiscal year as a whole, they are expected to exceed the record shipments of the previous 2 years. Although the value of exports may be up only moderately, the volume may total 4 or 5 percent above 1964-65. Larger exports, particularly for commercial markets, are in prospect in 1965-66 for soybeans, feed grains, wheat, tobacco, and some fruits. Smaller exports are indicated for cotton, dry beans, vegetables, and some livestock products.

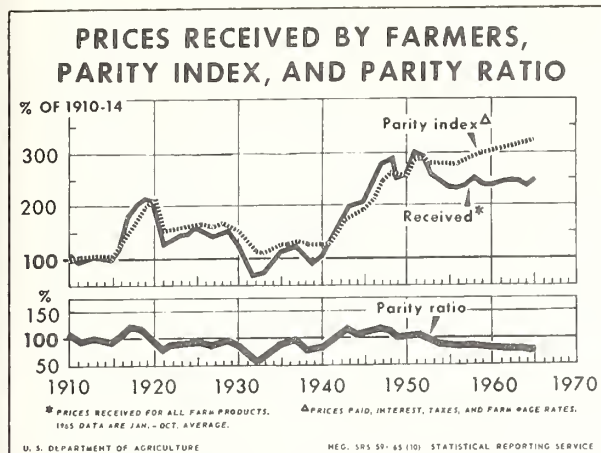
Expanding economic activity and rising incomes in the industrialized countries, especially Japan, Canada, and the nations of Western Europe, have increased their demand for livestock products and stimulated U.S. commercial exports of feed grains, soybeans and protein meals. Moreover, the U.S. will continue to ship large quantities of food to the less developed countries under provisions of the Food for Peace Program.

Farm Income and Financial Situation

The supply-demand-price situation outlined above for 1966 adds up to cash receipts from farm marketings about the same as estimated for this year. Larger receipts indicated for livestock and products may be about offset by reductions in crop receipts. Prices received for farm products may average a little lower and marketings slightly higher than in 1965.

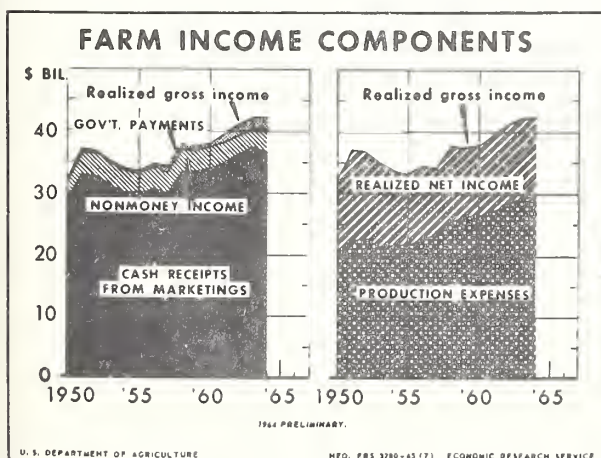
Government payments to farmers, however, will increase substantially, perhaps around a billion dollars from the \$2.4 billion estimated for 1965. The increase represents a change in the design of commodity programs rather than an increase in total cost. Most of the increase in payments would be for cotton to offset the income effect of a reduction of price-support loan rates to competitive world price levels. The program also largely eliminates payments to domestic cotton users and to





exporters of cotton and wheat. Some increase in payments will result from the provision in the wheat program for reflecting parity prices in the total return to farmers for that share of the crop which is used domestically for food. The new Cropland Adjustment program will also contribute to increased payments to farmers in 1966.

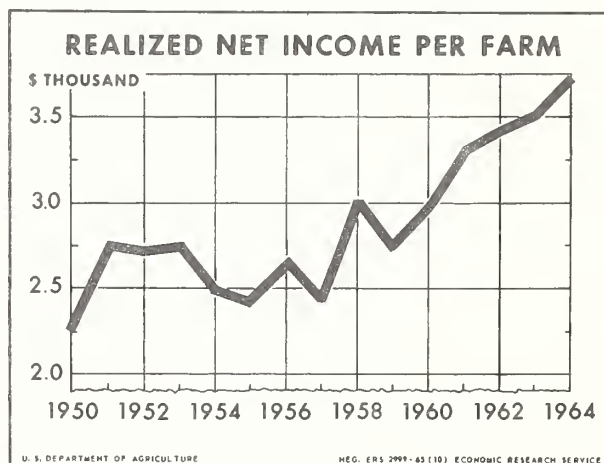
Including the larger Government payments, realized gross farm income in 1966 is expected to exceed \$45 billion compared with the \$44-1/4 billion now indicated for this year. A continued uptrend in production expenses in 1966 is again expected to offset much of the indicated gain in gross farm income. Prices paid by farmers for commodities, interest, taxes and wage rates are expected to rise in 1966. Depreciation and other overhead costs will increase again in 1966. But with little change likely in the bill for purchased feed and livestock



and some decline in expenditures for hired labor, the rise in total production expenses is expected to be smaller than the billion-dollar increase indicated for 1965.

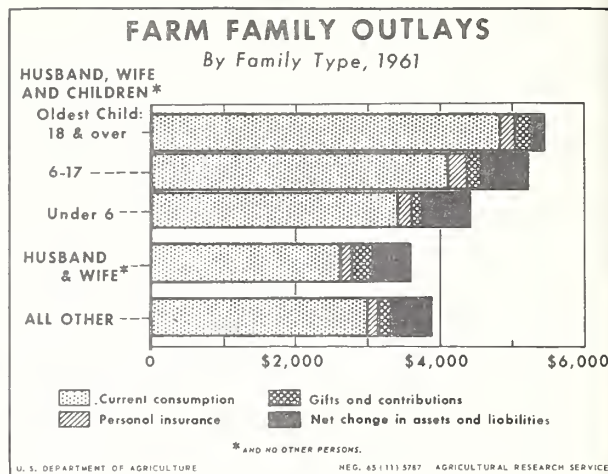
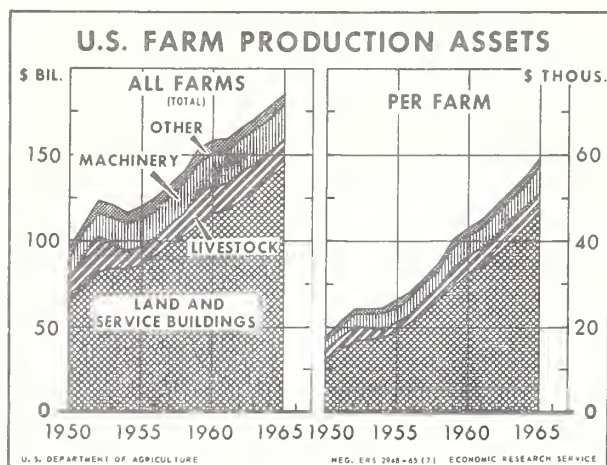
Farmers are earning better incomes than at any time in more than a decade. Greatly improved net farm income and declining farm numbers have contributed to a record level of net income per farm. Although the number of farms is declining, the number of adequate sized farms is increasing.

Net income per farm is estimated at above \$4,100 for 1965. This level would be more than a tenth above 1964 and some 40 percent above 1960. Per capita disposable income of farm people estimated



for 1965 is around a sixth above 1964 and 35 percent above 1960. Prospects for a further rise in incomes in 1966, with declines in the number of farms and farm people, will push per farm and per capita incomes of farm people to new highs in 1966.

Recent income gains put most farmers in a generally stronger financial position. The value of farm assets continues to rise. As in other years, most of the increase is due to the uptrend in farm real estate values. However, inventories of farm machinery and equipment continued to rise in 1965 and farmers increased their savings deposits and other investments. Farm debt also is rising sharply again in 1965. And this uptrend in the use of credit likely will continue in



1966. But the dollar increase in debt will be much less than gains in farm assets. Farm equities, as a result, rose in 1965 and prospects are good for a further improvement in the financial position of farmers in the coming year.

Farm Family Living

Rising incomes and the generally improved financial position of most farmers brightens the outlook for farm family living in 1966. The decline in the farm population, shifts in the age composition of farm people, and changes in Social Security programs also contribute to the improved outlook for 1966.

Migration from the farm is heaviest among 18-and 19-year olds. The current expansion in this age group, resulting from the sharp rise in birth rates after World War II, may result in a new wave of departures from the farm. But the number staying on the farm also may be large enough to modify the age distribution of farm people. There will be an increase in the proportion of families with children over 18 years. These families tend to spend more for automobiles than families with young children. They also spend more than other families for food away from home, clothing, and education.

A 1961 Survey of Consumer Expenditures indicates that the family with children over 18 is likely to have a higher income

than younger farm families, partly because it has more earners. However, in the group with older children, investments in the farm business and other savings take a smaller proportion of total income. They also will spend more for personal insurance and for current consumption than other families.

The 1965 amendments to the Social Security Act will bring both immediate and deferred advantages to the farm population in 1966. The "Medicare" provisions make health insurance available to all the elderly. Consequently, they are particularly important to older farm people. These families carry less health insurance than the urban aged and they spend a larger part of their total budget on medical care. Also farm people currently receiving Old-Age, Survivors, and Disability Insurance benefits gain from the 7-percent increase in benefits that is retroactive to January 1, 1965. In addition they may increase their annual earnings to \$1,500 without affecting their benefits. The 1961 Survey of Consumer Expenditures showed that OASDI and unemployment benefits constitute 5 percent of family income for both farm and urban families (7 percent for rural nonfarm families).

When you add it all up, 1965 has been a good year for most farmers and farm people. With expanding domestic and foreign markets for food and fiber, together with provisions of the new 4-year Food and Agriculture Act, prospects continue promising for 1966.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR WHEAT

Talk by William R. Askew
Economic and Statistical Analysis Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 10:50 A.M., Thursday, November 18, 1965

SUMMARY

The total supply of wheat for the 1965-66 marketing year is estimated at 2,175 million bushels, based on the October crop report. Total disappearance is expected to exceed production for the fifth consecutive year and, as a result, carryover stocks on June 30, 1966, may decline by at least 70 million from the 819-million-bushel beginning carryover.

Exports are estimated at 750 million bushels for 1965-66; although, if they were to continue at the rate of the July-September period, the total for the year would be higher than this estimate. During the first quarter of 1965-66, exports ran at a high level, with commercial exports substantially above a year earlier.

Feeding of wheat in 1965-66 is expected to be above the 70 million bushels of a year earlier, based on the expectation that wheat prices will be closer to feed grain prices at the farm level. This closer relationship occurred in July-September 1965 and known disappearance during this period indicated a sharp increase in wheat feeding over the same months a year earlier, thus substantiating the higher estimate of 100 million bushels of wheat for feed in 1965-66. In July-September 1965, feed grain prices averaged above a year earlier while wheat prices averaged about the same.

Despite the competitiveness of wheat and feed grain prices, wheat prices so far this year have been high relative to the loan. They seem to be following last year's pattern; prices in 1964-65 were highest during the summer and fall months. Farmers have again been withholding wheat from the market this season which has helped to strengthen prices. This, along with the expected heavy disappearance, is likely to maintain the season average price received by farmers in 1965-66 slightly above the national average loan rate of \$1.25 per bushel.

The Food and Agriculture Act of 1965, passed by Congress in October, continues the voluntary wheat certificate program for the next 4 years.

The legislation provides a program quite similar to the present program. Price support loans, at a national average of \$1.25 per bushel for the 1966 crop, are to be offered to producers who comply with their allotments. Marketing certificates valued at the difference between the loan level and the parity price will be issued on about 45 percent of the normal production. Parity was \$2.56 per bushel in October 1965 but could change by the time the official determination must be made in June 1966. Domestic food processors will be required to purchase certificates valued at 75 cents per bushel, the same as in 1965-66, with the remainder of the certificate value met with Government funds.

WHEAT SITUATION AND OUTLOOK

Total Supply Smaller

The total supply of wheat for the 1965-66 marketing year is estimated at 2,175 million bushels, based on data available in late October. This is slightly smaller than last year and substantially below the 5-year average (table 2). The beginning carryover of 819 million bushels was 82 million below the carryover on July 1, 1964, and represented a continuation of the decline in wheat stocks. Fiscal data on CCC holdings put Government-owned wheat at 646 million bushels on July 1, 1965. This, along with the 75 million remaining under loan and resale on that date, left a July 1 "free" carryover of 98 million bushels. The October crop report placed 1965 production at 1,354 million bushels, about 55 million above 1964. Imports are currently estimated at 2 million bushels for 1965-66, unchanged from a year earlier.

Free Supply Larger

Based on estimates of the free carryover and the 1965 crop, the beginning "free" supply in 1965-66 totaled about 1,452 million bushels. This is sharply above recent years and the most since 1958, when there were 1,485 million bushels in private hands.

High Level of Disappearance Expected

Total disappearance in 1965-66 is put at 1,425 million bushels, somewhat above a year earlier and considerably above the 5-year average (table 2). It is comprised of an estimated domestic disappearance of about 675 million bushels and expected exports of 750 million.

Domestic Disappearance to Increase

Feeding of wheat is expected to be heavier in 1965-66, pushing domestic disappearance to an estimated 675 million bushels, the highest level in 12 years. The current estimate is for 100 million bushels to be

fed during the marketing year beginning July 1, 1965. Disappearance during July-September 1965 substantiates this estimate; it indicates that feeding of wheat was up sharply from the same period a year earlier.

The use of wheat for feed in 1964-65 was calculated, through the residual method, at 70 million bushels. This is about 30 million bushels above the 1958-62 average and sharply above the level of the 2 preceding marketing years. The quantity of wheat fed on farms where grown in 1964-65, based on a Crop Reporting Board survey, was placed at 36 million bushels (table 2).

Wheat was priced low enough in 1964-65 to compete with feed grains. The same price relationships are expected to exist this year--the loan rates for 1965 crops of both wheat and corn are down 5 cents a bushel with wheat continuing at 20 cents a bushel above corn. In July-September this year, wheat farm prices, despite being higher relative to the loan, became more competitive with those of feed grains than in the same first 3 months of the 1964-65 year. It is expected that producers, after a year to become more familiar with the present program and more aware of the wheat-feed grain price relationships, will be even further inclined to feed wheat in 1965-66.

Food use of wheat in 1965-66 is now estimated at 510 million bushels, about the same as the quantity used for food a year earlier and in line with the flat trend of recent years. This trend is a result of annual decreases in per capita consumption of wheat products offsetting increases in population.

Larger Exports Indicated

Some increase in commercial exports and continued large Food-for-Peace shipments point to exports of wheat and flour in 1965-66 of around 750 million bushels. However, if exports were to continue at their present rate, the total for this year would be higher than the current estimate. Last year, about 728 million bushels were exported with a large proportion shipped under the Food for Peace Program. Government-financed exports totaled an estimated 566 million bushels, over three-fourths of the total. India was the major recipient, acquiring about 220 million bushels; Pakistan and Brazil followed with 65 million and 40 million, respectively. Exports for dollars, estimated at 162 million bushels, were slightly below the 1958-62 average and were well below the record level of 352 million bushels in 1963-64 (table 2). Japan was the major dollar buyer, taking about 60 million bushels.

In late January of 1965, USDA reduced the net export price to improve its competitive position in the world markets. Lower prices resulted in a significant rise in U. S. commercial exports during the remainder of 1964-65. However, the full effect of the price reduction was probably not felt

because many commercial export markets had already been taken by other exporters and because the dock strike curtailed shipping during January and February 1965.

Exports Up in First Quarter

During the first 3 months of the current marketing year, inspections for export of wheat, as grain, at 183 million bushels were sharply above a year earlier. Much of the increase was in commercial sales. These sales totaled 56 million bushels and comprised 30 percent of the wheat exported compared with only 18 percent a year earlier.

Japan continues to be the major cash buyer of U. S. wheat, taking nearly 20 million bushels during July-September 1965. India is still the largest recipient of U. S. wheat, receiving 63 million bushels during the period; nearly all moved under Title I, P.L. 480.

Carryover Stocks to Continue Decline

Based on the foregoing estimates of domestic disappearance and exports, carryover stocks on June 30, 1966, may decline at least 70 million from the 819-million-bushel beginning carryover. Total disappearance in 1965-66 is placed at 1,425 million bushels with carryover stocks on June 30, 1966, now estimated at 750 million bushels.

Prices Competitive With Feed Grains

The season-average price received by farmers for wheat in 1965-66 is expected to be slightly above the national average loan rate of \$1.25 per bushel. Approximately 84 percent of the 1965 acreage allotment was enrolled in the program, and all production from this acreage is eligible for price support. This should provide an offset to the large free supply and give strength to prices.

Prices received by farmers for wheat during July-September 1965 averaged \$1.33, 8 cents above the national average loan rate applicable to the 1965 crop. The quarterly average price is 1 cent a bushel below that for the same months a year earlier, when the national average loan rate was \$1.30. Despite the high level of wheat prices relative to the price-support loan this year, they became more competitive with those of feed grains. During July-September 1965, farm prices of the major feed grains were higher relative to wheat than during the same months in 1964. Wheat prices averaged 8 cents per cwt. over corn and 12 cents over barley. If adjustment is made for the greater nutritional value of wheat--5 percent over that of corn and 14 percent over barley--wheat was actually cheaper than these grains.

During the 1964-65 marketing year, prices received by farmers for wheat averaged \$1.37 per bushel. However, they did not follow a normal seasonal

pattern. Wheat prices were highest during the summer and fall months. From December to June, they declined; under a normal seasonal pattern this would have been the period of highest prices. Based on wheat prices so far this year, it appears that they are following last year's pattern.

The average price per bushel received by program participants and non-participants, as well as a blend price for all wheat farmers, is shown in table 2. Participants in the 1964 wheat program obtained approximately 43 cents per bushel more than nonparticipants--\$1.80 and \$1.37, respectively. The \$1.80 received by participants and the \$1.69 blend price received by all farmers include an allowance for marketing certificate payments, but not for acreage diversion payments.

1965-Crop CCC Loan Activity Lighter

The quantity of 1965-crop wheat put under loan through September totaled 113 million bushels, down slightly from the 122 million a year earlier. Of the wheat put under loan this year, 75 million bushels were stored in warehouses and the rest was stored on farms. On September 30, 1965, approximately 70 million bushels of wheat remained under resale loan from the 1964 and previous crops.

For the 1964-65 marketing year, about 198 million bushels of 1964-crop wheat were placed under loan and another 100 million were eligible for direct purchase by CCC. However, CCC acquired only about 75 million bushels under the support program through June 30, 1965. There were several reasons for heavy usage of the loan program in 1964-65. Most farmers thought market prices were too low when compared with the high levels of the past 2 decades; undoubtedly, they believed prices would rise.

Dispositions Continue Heavy

CCC sales and dispositions of wheat during the first 3 months of the current marketing year declined from the level of a year earlier. During the period, about 105 million bushels of CCC wheat moved into the market; most of it represented redemption of payment-in-kind script. During the same period in 1964, about 135 million bushels of CCC wheat came into the market, with 110 million at the statutory minimum price.

In 1964-65, sales and dispositions by CCC of about 310 million bushels almost reached the record of a year earlier. PIK redemptions totaled 130 million bushels. Last spring, CCC discontinued offering any wheat for sale at the statutory minimum price--105 percent of the price support loan plus applicable carrying charges or the market price, whichever is higher.

THE FOOD AND AGRICULTURE ACT OF 1965

The program will be quite similar to the present program. Price support loans, at a national average of \$1.25 per bushel for the 1966 crop, are offered to producers who comply with their allotments. Marketing quotas are suspended while the program is in effect. Producers who are prevented from planting wheat because of natural disasters receive the same program benefits they would have received if they had planted, provided the land is not planted to any other income-producing crop.

Wheat for domestic food use will be supported at 100 percent of parity or as near as practicable. For 1966, domestic certificate wheat will be supported at parity. CCC will pay the support above \$2.00, and domestic wheat processors will pay the difference between the national average price-support loan rate and the \$2.00 domestic food-processor level. (In 1965-66, processors are also paying 75 cents per bushel). Domestic marketing certificates will be issued to producers to cover estimated domestic food use but the minimum number of certificates cannot be less than 500 million. They will be issued on about 45 percent of normal production. There was no minimum for certificates in 1965.

Noncertificate wheat and wheat for export will be supported through loans at a level based on the world market price and the feeding value of wheat. Export certificate costs to exporters will be on a day-to-day basis rather than on a predetermined annual value as in 1965. At the end of the marketing year, the proceeds from export certificates minus export payments will be distributed to eligible producers on a pro-rata basis. In 1965, export certificates with a predetermined face value of 30 cents per bushel were issued to producers for 35 percent of the normal yield of their allotments.

For the 1967 through 1969 crops, the blend, or weighted average, return per bushel on the projected yield of the allotment cannot be less than the blend return per bushel in 1966--provided the required diversion is more than 10 percent.

The minimum national acreage allotment will be the number of acres needed to produce the estimated requirements on a projected national yield. No minimum acreage allotment is specified. The 1966 allotment was established at 47.8 million acres in April 1965 under the Food and Agriculture Act of 1962. Under the program applicable for the 1965 crop, the national allotment could not have been less than 49.5 million acres.

Diversion payments are authorized on additional voluntary diversion up to 50 percent of the farm allotment or 25 acres, whichever is larger. In 1965, the maximum was 20 percent or 15 acres, whichever was larger. Authority is given, under certain conditions, to allow planting on diverted acreage to a number of minor crops.

Projected yields will be established for each farm for computing program benefits; they will be indicative of the yield per acre expected for each farm, assuming current cultural practices and normal weather conditions. Previously a 5-year average yield, subject to adjustments for abnormal weather and other factors, had been used. Generally, the new method should provide a higher yield than using the 5-year average.

Beginning in 1967, State, county, and farm wheat allotments will be computed on the basis of the preceding year's allotment instead of on the basis of 5- and 10-year history. Relationships between each will not be significantly changed but will reflect the increases made in small farm allotments under existing law. For 1966, State, county, and farm allotments are computed under the law existing before passage of the new bill.

Table 1.- Estimated supply and distribution of wheat by classes, United States, 1964-65 and 1965-66

(Note.-Figures in this table, except production, are only approximations).

Item	: : Hard : winter	: : Red : winter	: : Hard : spring	: : Durum	: : White	: : Total
	: : Mil. : bu.	: : Mil. : bu.	: : Mil. : bu.	: : Mil. : bu.	: : Mil. : bu.	: : Mil. : bu.
<u>1964-65 1/</u>						
Carryover, July 1, 1964	: 670	: 4	: 180	: 41	: 6	: 901
Production	: 642	: 229	: 173	: 66	: 181	: 1,291
Imports 2/	: ---	: ---	: 2	: ---	: ---	: 2
Supply	: 1,312	: 233	: 355	: 107	: 187	: 2,194
Exports 2/	: 502	: 80	: 24	: 9	: 113	: 728
Domestic disappearance 3/	: 271	: 146	: 135	: 31	: 64	: 647
Carryover, June 30, 1965	: 539	: 7	: 196	: 67	: 10	: 819
<u>1965-66 1/ 4/</u>						
Carryover, July 1, 1965	: 539	: 7	: 196	: 67	: 10	: 819
Production	: 695	: 187	: 213	: 65	: 194	: 1,354
Imports 2/	: ---	: ---	: 2	: ---	: ---	: 2
Supply	: 1,234	: 194	: 411	: 132	: 204	: 2,175
Exports 2/	: 561	: 40	: 40	: 12	: 97	: 750
Domestic disappearance 3/	: 285	: 144	: 137	: 27	: 82	: 675
Carryover, June 30, 1966	: 388	: 10	: 234	: 93	: 25	: 750

1/ Preliminary. 2/ Include flour and products in wheat equivalent. 3/ Wheat for food (including military food use at home and abroad), feed, seed and industry. Includes shipments to U. S. Territories. 4/ Imports and distribution items are projected.

Table 2.- Wheat: Supply and distribution and prices,
average 1958-62, annual 1962-65

Item	Year beginning July				
	Average	1962	1963	1964	1965
	1958-62			1/	1/ 2/
	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.
<u>Supply</u>					
Carryover on July 1	1,244.6	1,321.9	1,194.9	901.2	819
Production	1,252.8	1,093.7	1,142.0	1,290.5	1,354
Imports 3/	7.0	5.5	4.3	1.9	2
Total	2,504.4	2,421.1	2,341.2	2,193.6	2,175
<u>Domestic disappearance</u>					
Food 4/	498.1	502.3	505.0	512.4	510
Seed	61.5	60.6	63.4	64.2	65
Industry	.1	.1	.1	.1	---
Feed (Residual) 5/	41.9	20.9	12.8	70.0	100
Fed on farms where grown	(29.6)	(20.3)	(19.9)	(35.8)	
Total	601.6	583.9	581.3	646.7	675
<u>Exports 3/</u>					
For dollars	595.5 (171.3)	642.3 (151.7)	858.7 (351.6)	728.0 (162.0)	750
Total disappearance	1,197.1	1,226.2	1,440.0	1,374.7	1,425
<u>Stocks on June 30</u>					
Privately owned--"Free"	1,307.3 (51.0)	1,194.9 (6.0)	901.2 (19.7)	818.9 (98.0)	750
	Dol. per bu.	Dol. per bu.	Dol. per bu.	Dol. per bu.	Dol. per bu.
<u>Price Support</u>					
National average loan rate	1.84	2.00	1.82	1.30	1.25
Average payment 6/	---	---	.18	.43	.44
<u>Season average price received</u>					
By all farmers	1.82	2.04	1.85	1.37	
With payment allowance	---	---	1.92	1.69	
By program participants	1.82	2.04	2.03	1.80	

1/ Preliminary. 2/ Imports and distribution items for 1965 are projected.
3/ Include flour and other products in wheat equivalent. 4/ Includes shipments to U. S. Territories and wheat for military food use at home and abroad.
5/ Assumed to roughly approximate total amount used for feed, including amount used in mixed and processed feed. 6/ Based on applicable allocation of normal production; does not include acreage diversion payments. Direct payment for 1963 and weighted average of marketing certificates for 1964 and 1965.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR TOBACCO

Talk by Arthur G. Conover

Economic and Statistical Analysis Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 10:50 A.M., Thursday, November 18, 1965

Total supplies of most kinds of leaf tobacco for 1965-66 continue large in relation to requirements. For flue-cured tobacco, the leading cigarette and export tobacco, supplies are beginning to adjust to a better balance with requirements.

In 1966, for the second successive year, the flue-cured tobacco crop will be produced under the acreage-poundage program. The Secretary of Agriculture is required to announce the amount of the 1966 flue-cured quota by December 1, 1965. For burley, fire-cured, dark air-cured, and sun-cured tobaccos, marketing quotas on an acreage basis must be announced by February 1, 1966; under the acreage-poundage law enacted on April 16, 1965, the Secretary--if he determines that acreage-poundage quotas would result in a more effective program--can also announce quotas on these tobaccos on an acreage-poundage basis. If this were done, special referendums would be held to determine whether growers favor quotas on an acreage-poundage basis for the next 3 crops (1966-68). If more than two-thirds of the growers voting were in favor, acreage-poundage quotas would be placed in effect; otherwise the acreage allotment program would continue in effect. For Maryland tobacco and the eligible kinds of cigar tobacco, 1966 quotas must be announced on the acreage allotment basis by February 1, 1966, and grower referendums will then be held; under existing law, these tobaccos cannot be considered under an acreage-poundage determination until the 1967 crop.

Government price support is mandatory for the kinds of tobacco produced under marketing quotas. The 1965 crop price supports are about 1 percent higher than those in 1964. Available data indicate that the 1966 crop price supports will increase about 2 percent above 1965. These support levels will be established by increasing the 1959 support levels in accordance with the percentage rise in the parity index from 1959 to 1963-65 (the average of the most recent 3 calendar years). The parity index measures average change over a period of time in prices of commodities and services bought by farm families.

Position of Different Kinds of Tobacco

Flue-cured: The 1965-66 total supply of flue-cured tobacco is slightly below the record 1964-65 level. Carryover at the outset of 1964-65 was 7 percent above a year earlier and record high. This year's production is estimated at about 15 percent lower than 1964 harvestings. Carryover stocks of flue-cured going into 1966-67 are likely to be reduced somewhat from the high level of a

year earlier. Domestic use of flue-cured in 1964-65 increased a little, and a further modest increase is expected in 1965-66 due to an expected gain in cigarette output. The 1964-65 exports of flue-cured were down 12 percent from the 8-year high of 1963-64. Due mainly to improvement in quality of the 1965 crop and the smaller 1965 production in Rhodesia, a moderate increase in U. S. flue-cured exports in 1965-66 is expected. The increase in exports may be limited by the rise in prices in the 1965 season.

By early November, about nine-tenths of the flue-cured crop had been marketed. The crop seems likely to average between 64 and 65 cents per pound--about 6 cents above 1964 and near the previous high of 1961. The price support level for the 1964 crop was 57.7 cents per pound. Through early November, about $6\frac{1}{2}$ percent of market deliveries had been placed under Government loan in contrast with over 20 percent from each of the previous 2 crops. Though flue-cured tobacco loan stocks are still relatively large, a substantial quantity of these stocks has been sold within the past 12 months.

Burley: The 1965-66 total supply of burley--second ranking cigarette tobacco and important to pipe smoking and chewing tobacco products--is at a record or near-record level. Carryover is estimated to exceed any previous year and the 1965 crop may be only slightly below 1964. Acreage for harvest is indicated to be down 9 percent, reflecting a cut of one-tenth in allotments; but the rise in average yield per acre over last year has largely offset this. The 1965 average yield per acre is indicated to be only slightly below the record 1963 level. Domestic use of burley in 1964-65 showed a significant increase, topping any previous year by a sizable margin. Exports of burley in 1964-65 were slightly lower than the record 1963-64 level. Burley auction markets will start November 29. The overall support level for the 1965 crop is $59\frac{1}{2}$ cents per pound. In the 1964 season, nearly 18 percent of the crop went under Government loan.

Maryland: The 1965-66 supply of Maryland tobacco is record large. Carryover is estimated at 10 percent above a year earlier and record high. This rise more than offsets the decrease in production from last year. The 1965 crop is indicated to be about 11 percent lower than 1964 marketings. The 1964-65 domestic use of Maryland tobacco rose about a fourth above the comparatively low level of 1963-64; exports, however, declined to a 10-year low. The auction market average of mainly 1964 crop marketings was 61.8 cents--well above the previous season when prices were depressed by poor quality. About one-tenth of the 1964 crop went under Government loan in contrast with three-tenths of the 1963 crop. The support level for the 1965 crop is 52.8 cents per pound.

Fire-cured: The 1965-66 total supply of Virginia fire-cured tobacco is down to a new low, and the total supply of Kentucky-Tennessee fire-cured is a little less than the 7-year high of a year earlier. The Virginia crop may be slightly larger than last year, but carryover is down. The Kentucky-Tennessee crop is about a tenth lower than in 1964 but this was partially offset by a rise in carryover to its highest in 7 years. Indicated 1964-65 domestic use of both kinds of fire-cured was larger than in 1963-64; exports of Virginia fire-cured dropped slightly below the long-time high of a year earlier, and exports of

Kentucky-Tennessee fire-cured also declined some from 1963-64. The 1965 support level is 40.4 cents per pound. In the 1964 season, a comparatively small quantity of Virginia fire-cured, but nearly one-sixth of the Kentucky-Tennessee fire-cured, went under Government loan.

Dark Air-cured and Sun-cured: The 1965-66 supply of Kentucky-Tennessee dark air-cured tobacco is a little lower than for 1964-65 due to a smaller crop this year than last. Carryover is up slightly from a year earlier. The 1965-66 supply of Virginia sun-cured is about the same as 1964-65 with production and carryover practically duplicating year-earlier levels. Domestic use of Kentucky-Tennessee dark air-cured was about the same as in 1963-64 but exports increased some; domestic use of Virginia sun-cured in 1964-65 is indicated at a new low, and exports stayed about the same as in recent years. The 1965 support level for these tobaccos is 35.9 cents per pound. In the 1964 season, about one-sixth of the Kentucky-Tennessee dark air-cured, but practically none of Virginia sun-cured went under Government loan.

Cigar Filler: The 1965-66 supply of Pennsylvania filler is indicated to be about 4 percent below the long-time high of 1964-65; the 1965 crop is a little larger than 1964, but carryover declined moderately from the high of a year earlier. The 1965-66 supply of Ohio filler is at a 7-year low; a further relatively sizable drop in carryover has more than offset the increase in this year's crop over last. The carryover of Puerto Rican filler rose sharply to a new high; the quota announced by the Government of Puerto Rico for the crop that will be harvested in early 1966 is about 40 percent below the big crop harvested early this year. The indicated domestic use of Pennsylvania filler in 1964-65 is substantially above the unusually low 1963-64 figure, but domestic use of Ohio filler is below the 9-year high of a year earlier.

Stocks of foreign-grown cigar tobacco in this country continued to increase with a very sharp rise in tobacco from the Philippines and smaller increases in tobacco from the Dominican Republic, Brazil, Indonesia, and other sources. Substantial quantities of these and Colombian tobacco are now used in cigars and cigarillos, in contrast with small quantities (except Philippine tobacco) used 5 years ago.

Cigar Binder: The 1965-66 supply of Connecticut Valley binder types are lowest on record. This year's production is down a little from 1964 and carryover is indicated to be at a new low because of the reduction in stocks of the Havana Seed type. The disappearance in 1964-65 is indicated as second lowest on record. Domestic use dropped to a new low, but exports increased to the most in 4 years.

The 1965-66 supply of Wisconsin tobacco is somewhat larger than 1964-65. This year's crops exceeded last year's and carryover is estimated a little above a year ago. Domestic use of Wisconsin tobacco in 1964-65 is indicated to be moderately below the 6-year high of 1963-64, but 1964-65 exports (a relatively small proportion of total disappearance) exceeded each of the previous 3 years.

Shade-grown Cigar Wrapper: The 1965-66 supply of Connecticut Valley cigar wrapper is moderately larger than 1964-65 and second largest on record. The 1965 crop exceeds any previous year and carryover was up slightly. The 1965-66 supply of Georgia-Florida wrapper is the smallest in 7 years; though this year's production was above each of the 3 previous years, carryover was the smallest since 1956.

The 1964-65 domestic use of Connecticut Valley wrapper was near the record 1963-64 level, and that of Georgia-Florida wrapper rose to a new high. On the other hand, exports of both wrapper types declined; total wrapper exports were lowest in 4 years.

Tobacco Products

Cigarettes: The 1965 output of cigarettes is estimated at a record 565 billion--25 billion above 1964 and 14 billion above the previous high in 1963. Consumption by U. S. smokers (including those overseas) seems likely to total 536 billion--a rise of nearly 5 percent over 1964 when there was a decline of $2\frac{1}{2}$ percent from 1963. Due mainly to continuing increase in the number of persons of smoking age, cigarette consumption in 1966 is likely to show a further modest rise. The number of cigarettes consumed per capita, 18 years and over, in 1965 rose 3 percent above 1964 but was slightly below the 1963 record high. Factors influencing, or that may influence, cigarette consumption are the price advances (some considerable) in States that raised their tax rates and the requirement, effective January 1, 1966, that all cigarette packages carry a cautionary health warning. The labeling legislation enacted July 27, 1965, also requires reports to Congress by July 1, 1967, (and annually thereafter) by the Department of Health, Education, and Welfare concerning current information on smoking and health, and by the Federal Trade Commission on the effectiveness of cigarette labeling and on cigarette advertising practices.

Cigars and Cigarillos: The 1965 consumption of cigars and cigarillos may approach 8.9 billion--2 or 3 percent less than the record high of 1964, but about 22 percent more than in 1963. Cigar and cigarillo consumption is expected to show a modest increase in 1966 over 1965. Cigar and cigarillo consumption, per male 18 years and over, in 1965 declined about 4 percent from 1964 but was second highest in 25 years. Manufacture of cigars in Puerto Rico continues to increase, and this year shipments to the mainland will provide about one-tenth of the cigars consumed by U. S. smokers. The 1965 consumption of small cigars (about cigarette-size) receded sharply from the high level of 1964, but is likely to be well above 1963 and third highest since 1929.

Smoking Tobacco: The 1965 output of smoking tobacco for pipes and roll-your-own cigarettes is estimated at about 74 million pounds--down a tenth from 1964 when it was highest in a decade. Last year, consumption of smoking tobacco rose sharply following the smoking-health report. For the year ahead, little change from the 1965 level is expected in the consumption of smoking tobacco.

Consumption, per male 18 years and over, in 1965 is estimated at about 12 percent below 1964 and 15 percent less than 10 years ago.

Beginning January 1, 1966, smoking tobacco, chewing tobacco, and snuff will no longer be subject to a Federal excise tax; the 10 cents per pound levy was repealed by the 89th Congress.

Chewing Tobacco and Snuff: The 1965 output of chewing tobacco may be near 64 million pounds--3 percent below 1964 and probably lowest on record. Declines are indicated in both major categories of chewing tobacco--scrap and plug. The 1965 consumption, per male 18 years and over, is estimated to be nearly 5 percent below 1964 and about 25 percent below 10 years ago.

The 1965 output of snuff is estimated at 30 million pounds--4 percent less than 1964 and a new long-time low. On a per capita basis, snuff consumption is nearly a third less than 10 years ago.

Exports and Imports

About one-fourth of U. S. tobacco is exported in unmanufactured form. The 1965 calendar year exports may fall some below the 584 million pounds (farm-sales weight) of 1964. For the year ending June 30, 1966, however, U. S. tobacco exports are expected to be moderately above 1964-65, when they were the second smallest in 5 years. The acreage-poundage program adopted for flue-cured, which makes up about four-fifths of total U. S. tobacco exports, is a contributory factor because it resulted in a significant improvement in quality. The sizable price advances for flue-cured in the past season, however, may limit the increase. The continued rise in world cigarette consumption and favorable levels of economic activity in many overseas markets will favor increased tobacco exports. Also, U. S. programs under the Agricultural Trade Development and Assistance Act (P. L. 480) will continue to help U. S. tobacco exports. Adverse factors to be reckoned with are the strong competition from foreign-producing areas and trade barriers imposed by importing countries.

Imports for consumption (an approximate measure of usings) of foreign cigarette tobacco in the year ended June 30, 1965, were 6 percent above 1963-64--slightly more than the 5 percent increase in output of cigarettes in the same period. General imports (total arrivals from abroad) in 1964-65 rose sharply above the unusually low level of 1963-64 and were second largest in 5 years.

Imports for consumption of foreign cigar tobaccos in 1964-65 rose more than one-fifth above 1963-64. General imports of these tobaccos, heavily influenced by the sharp jump in arrivals from the Philippine Republic, rose about 50 percent from 1963-64 to 1964-65.



UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR FOOD CONSUMPTION, PRICES, AND EXPENDITURES

Talk by Stephen J. Hiemstra
Economic and Statistical Analysis Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 9:15 A.M., Wednesday, November 17, 1965

Summary

Significant changes have taken place in food consumption and prices this year. Overall, food consumption per capita declined a small amount and prices rose in response to reduced supplies and expanding demand. For certain foods, the price increases were rather dramatic. Partly because of the price increases, total food expenditures rose more than usual in 1965. And, the share of consumers' income spent for food declined fractionally from $18\frac{1}{2}$ percent in 1964 (fig. 1).

For 1966, food consumption per capita is expected to equal this year's level. Per capita consumption of livestock products is expected to continue downward but will be about offset by an increase for crop products. Retail food prices again are expected to increase, though by less than in 1965. Food expenditures are expected to increase again in 1966, but not as much as the 6 percent increase in 1965. An increase more like 4 percent would be consistent with supply prospects for 1966 and the outlook for disposable income.

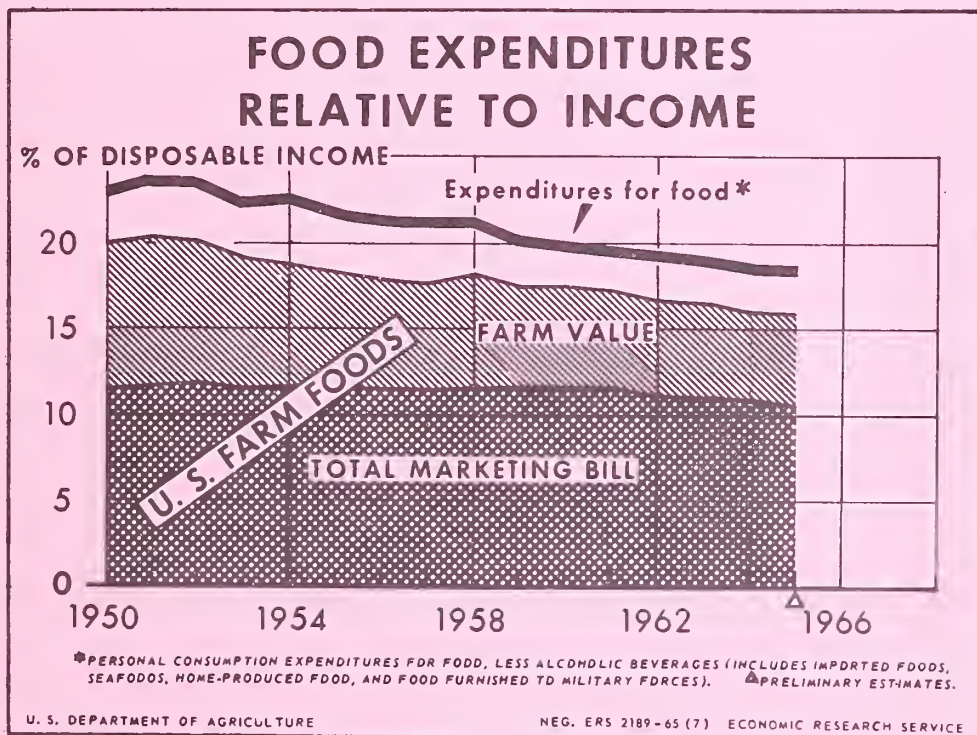


Fig. 1

Food Expenditures

Expenditures for food are totaling about $\$85\frac{1}{2}$ billion in 1965. Another \$12 billion is being spent for alcoholic beverages. Expenditures for food and alcoholic beverages together are estimated at an annual rate of nearly \$100 billion in the fourth quarter.

The percentage of income being spent for food this year is declining fractionally because food expenditures are not rising quite as fast as income. Income after taxes so far this year is up $6\frac{1}{2}$ percent from a year earlier, and expenditures for food are up about 6 percent. The percentage spent for food is expected to decline slightly again in 1966.

Higher retail food prices account for close to half of the 6-percent increase in food expenditures this year. Another 1 percentage point is caused by the increase in total consumption of food: This is a combination of the 1.3 percent population growth and a decline of half of 1 percent in per capita food consumption. The balance of the expenditure gain--about 2 percentage points--is attributed to an increase in marketing services. The much greater increase this year in sales by eating and drinking places than by retail food stores shows evidence of this. Food sold in restaurants contains a lot more marketing services per unit of food than does food sold in grocery stores.

Food expenditures this year are averaging about \$439 per capita. This is a simple average of the total expenditures of $\$85\frac{1}{2}$ billion divided by the total population (including Armed Forces overseas) of 194.6 million on July 1, 1965. It compares with \$420 per capita for 1964. Food expenditures per family (2 or more persons, an average of 3.7 persons) are averaging approximately \$1,469 this year. This amounts to \$28.25 per week.

But, don't apply simple averages of expenditures per capita to different sized families. As the family increases in size, total food expenditures increase, but not in proportion to the number of persons, partly because of changes in income. Single consumers are spending an estimated \$675 for food in 1965 compared with about \$570 per person for a 2-person family and \$285 per person for a family of 6 or more. Total family expenditures are estimated at \$1,140 for 2-person families but total \$1,995 for 6-or-more person families. This ranges from \$22 to \$38 per week depending upon size of family. Food expenditures also, vary as a result of variations in family income, location, vocation of family head, number of earners in the family, and family composition preferences. The effects of many of these characteristics on food expenditures can be estimated from data from the 1960-61 Survey of Consumer Expenditures by the Bureau of Labor Statistics (BLS).

I would like to clarify a point of confusion about the percentage of income spent for food. Reports from the BLS survey indicate that $24\frac{1}{2}$ percent of expenditures for current consumption went for food in 1960-61. This figure appears to conflict with the $18\frac{1}{2}$ percent of income spent for food this year. Actually it doesn't. The differences are mostly a matter of definition; the rest are due to differences in sampling, measurement, and time periods compared.

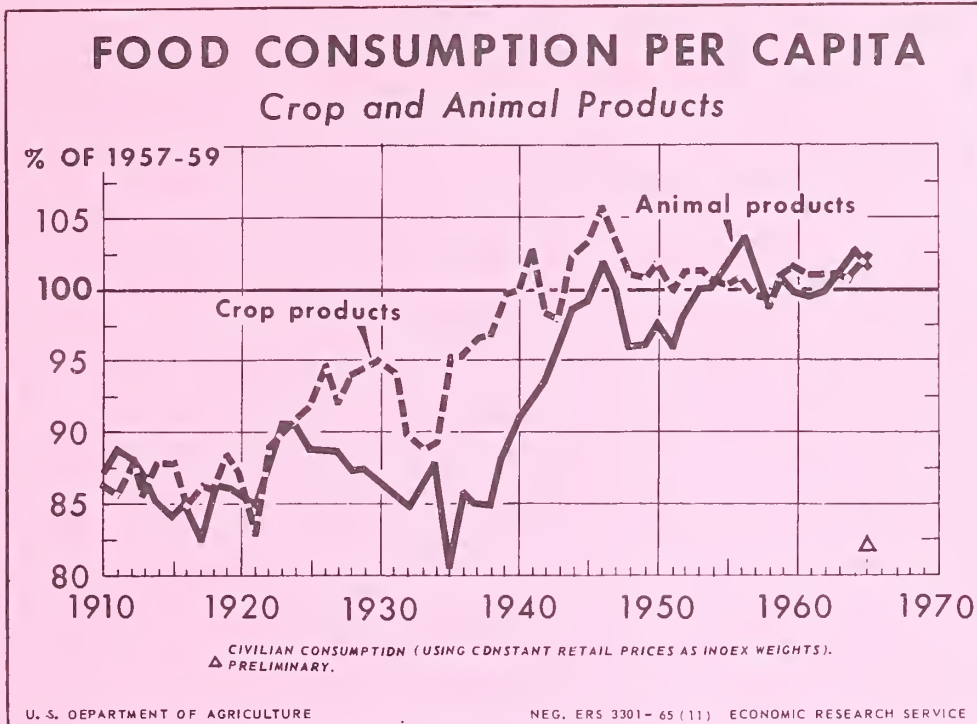


Fig. 2

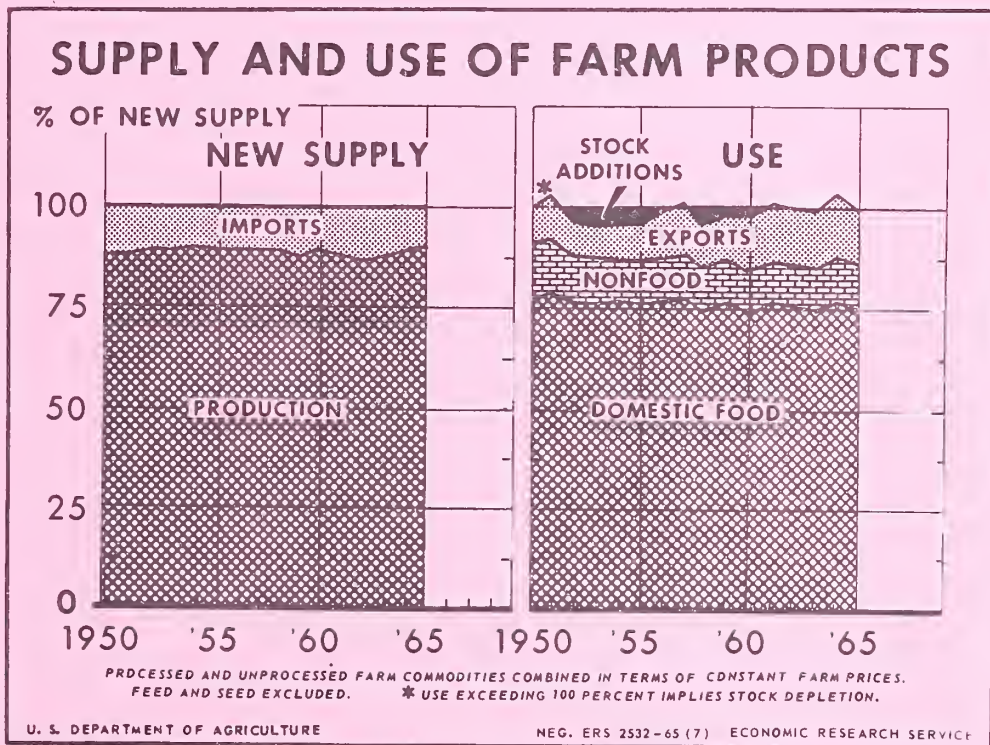


Fig. 3

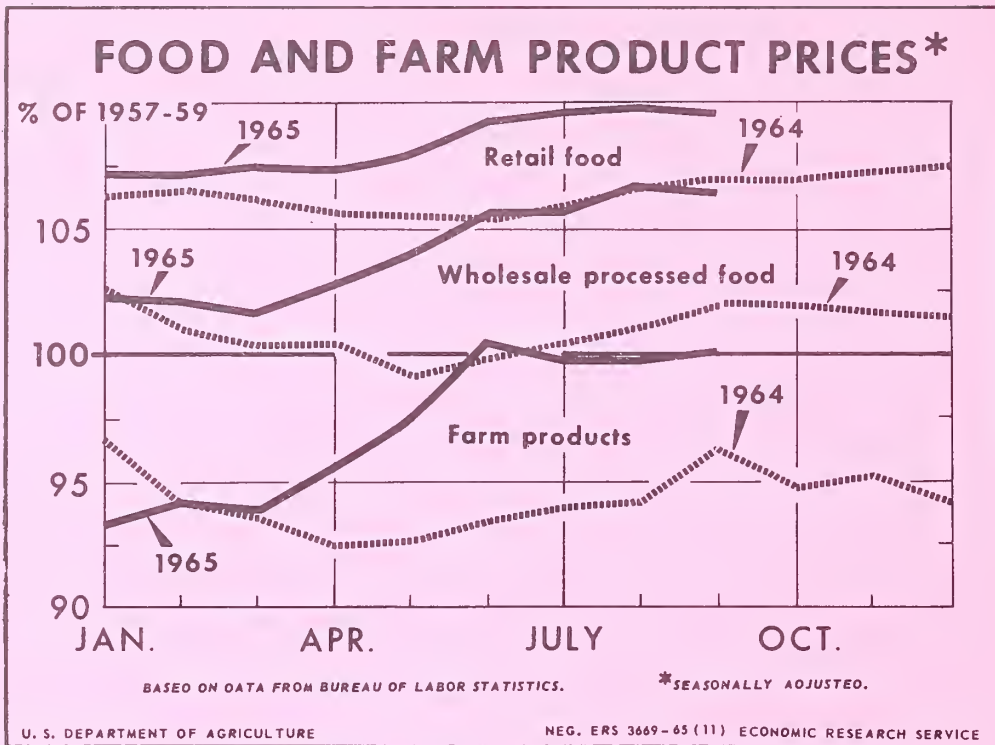


Fig. 4

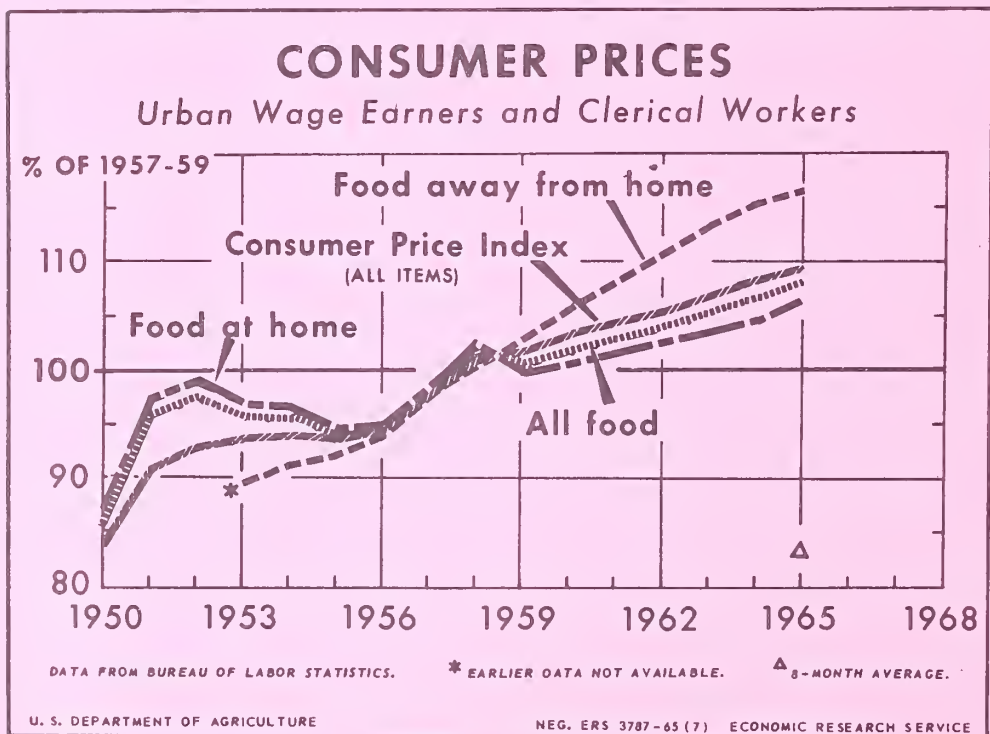


Fig. 5

The largest difference is in the base with which food expenditures are compared. Food expenditures from the survey data are compared with current consumption expenditures. This excludes expenditures for personal insurance, gifts and contributions, and savings. These items, however, are included in disposable income upon which the $18\frac{1}{2}$ percent is based. In addition, the figure from the BLS survey excludes home-produced food, but the food expenditure data from the Department of Commerce include the value of home-produced food. When the survey data are adjusted to the definitions used in the Commerce data, the difference is reduced to about half of 1 percentage point. Revised Commerce data show 20.3 percent of after-tax income spent for food in 1960-61 compared with 20.8 percent for urban consumers in the survey. 1/

Food Supply and Consumption

Total food consumption is declining about half of 1 percent per capita this year when food is valued in constant prices, that is, in terms of the per capita food consumption index. Measured in terms of calories, per capita consumption is down about 1 percent this year. The 1965 crop in the per capita food consumption index is a switch from last year when consumption rose about 1 percent per capita. The decline this year is centered in livestock products, whereas last year we increased our use of livestock products (fig. 2).

In 1966, per capita consumption of total food likely will be about equal with 1965, but a further decline is expected for livestock products. Per capita consumption of food from crops increased both last year and this year and a further gain is anticipated in 1966. Over the entire past half century, per capita consumption of both livestock and crop products increased about the same proportion, when valued in terms of constant prices. However, measured in terms of calories, per capita consumption declined.

Military food procurement is likely to increase in 1966. The amount of the step-up is difficult to estimate, but total military use usually accounts for only about $1\frac{1}{2}$ percent of total use of all farm commodities so it would take a relatively large increase in military use to cut deeply into civilian food supplies. Nevertheless, increased military procurement probably has been large enough to exert price effects in markets for selected products, and this situation likely will continue.

Another use of food affecting the commercial market for civilian food is the amount donated by the USDA to schools, institutions, and needy persons as a result of the USDA price-support and surplus-removal activities and the School Lunch Program. Last year, these foods accounted for about $1\frac{1}{2}$ percent of total food consumed, measured in constant prices. This is up from only half of 1 percent of the total in 1960. The increase in donated foods accounted for much of the total $1\frac{1}{2}$ percent increase in per capita food consumption that

1/ The survey yields the same figure, 20.8 percent, for all consumers in the survey, excluding home-produced food (data for home-produced food consumed on farms is not yet reported). The Department of Commerce data for food expenditures are subject to further slight revision.

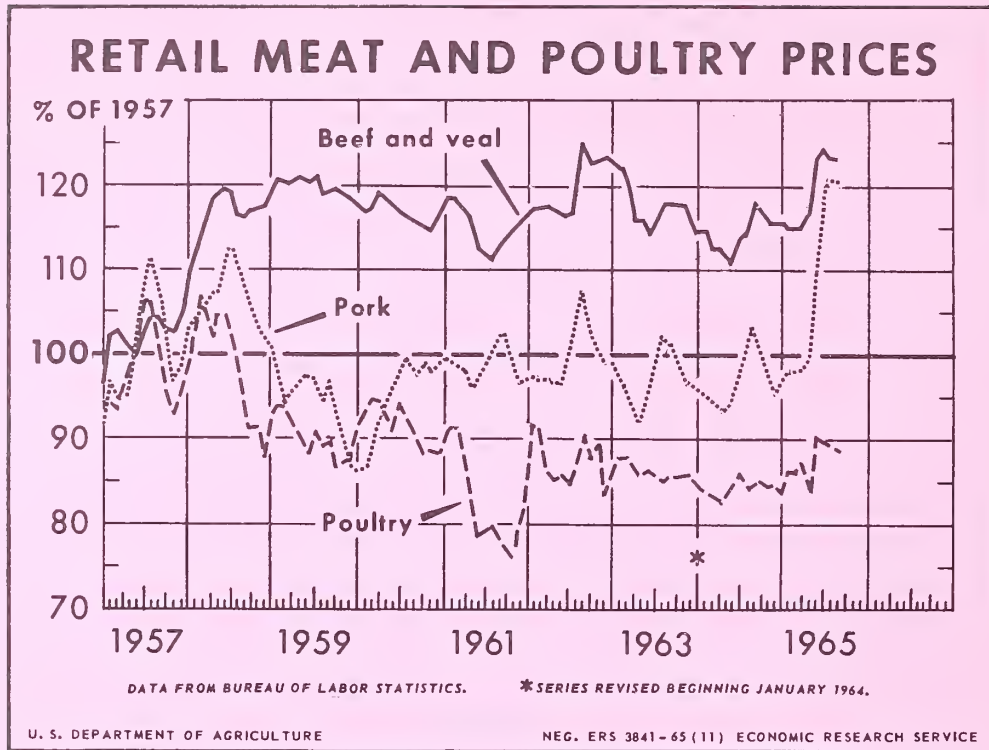


Fig. 6

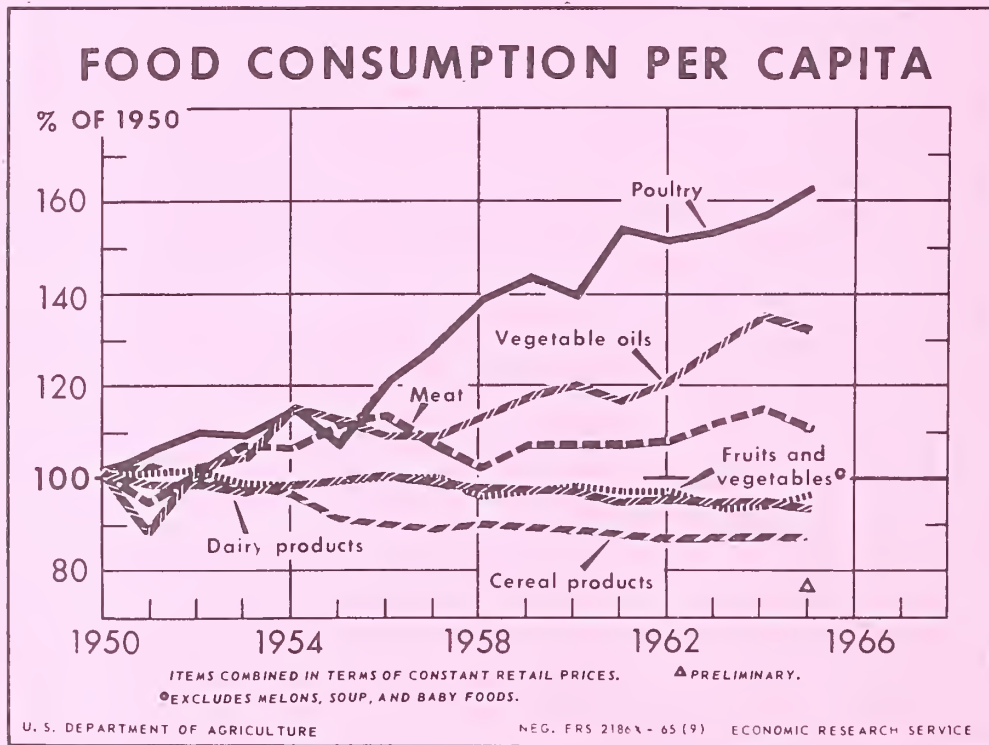


Fig. 7

occurred between 1960 and 1964. The Food Stamp Program, not included in the above estimates of food donations, also is stimulating food consumption. On September 30, some 650,000 persons were covered by this program. The Department's goal is to extend the program to cover a million people by mid-1966. The donations also do not include local purchases for school lunches that account for about three-fourths of total school lunch food, nor do they include the Special Milk Program.

Though civilian per capita food consumption is down slightly this year, total production of farm commodities is up more than population. The increase is all on the crop side; total production of livestock products is down slightly. The increase indicated for crops is 7 percent, according to current expectations, so total end-of-year stocks are expected to increase. The situation this year contrasts with a sizable decline in stocks last year (fig. 3). Exports and imports of farm commodities both are declining slightly during calendar 1965.

Retail Food Prices

Because fewer food supplies reached the consumer this year, retail food prices increased rather sharply (fig. 4). Farm prices rose strongly for some farm products. The margin between farm and retail prices declined this year; all of the increase in retail prices was reflected in farm prices.

Retail food prices for the first 3 quarters of 1965 averaged 2 percent above the same period of 1964. This doesn't sound like very much of an increase, but as you know, increases were sizable for certain foods. A large increase in prices occurred during the second quarter, but by the third quarter, prices tended to level out. Prices probably are remaining relatively stable during the fourth quarter. Price increases so far this year have been larger for food purchased at the grocery store than for food purchased in restaurants and other way-from-home eating places, but restaurant food prices are beginning to catch up (fig. 5). Food prices have increased more so far this year than has the Consumer Price Index, a switch from the usual situation.

Average retail food prices are expected to increase again in 1966. The annual increase is not expected to be as large as that in 1965. Increases likely will be greatest for food purchased and consumed away from home, for livestock products, and for processed foods.

Livestock Products

Meat prices have been a major factor behind the increase in average retail food prices this year (fig. 6). All meats participated in the price increase, though the largest increases have been for pork and lamb; pork prices are at record levels. Beef prices are well above a year earlier, about in line with prices in the fall of 1962. Poultry meat prices are higher this year, despite heavier supplies.

The rise in meat prices this year is a reaction to reduced total meat supplies per capita in an expanding economy (fig. 7). The decline is most pronounced in the case of pork; consumption is down 5 pounds per capita. But, beef is down a pound per capita and lamb a half pound. Poultry meat consumption is increasing about 2 pounds per capita. Per capita consumption of other livestock products--dairy products, eggs, and animal fats--also is declining in 1965. Consumption of total fats and oils declined about a pound this year and prices of these products increased sharply, partly as a result of higher soybean prices early this year.

The outlook for 1966 is for a further decline in per capita consumption of meat, though probably by less than the decline this year. Pork again is expected to account for most of the decline. With reduced supplies, further price increases can be expected for meat. However, the increases from current levels are expected to be much smaller than those experienced in 1965 (fig. 8). And, if pork supplies increase late next year, as expected, pork prices by late 1966 likely will be below current levels.

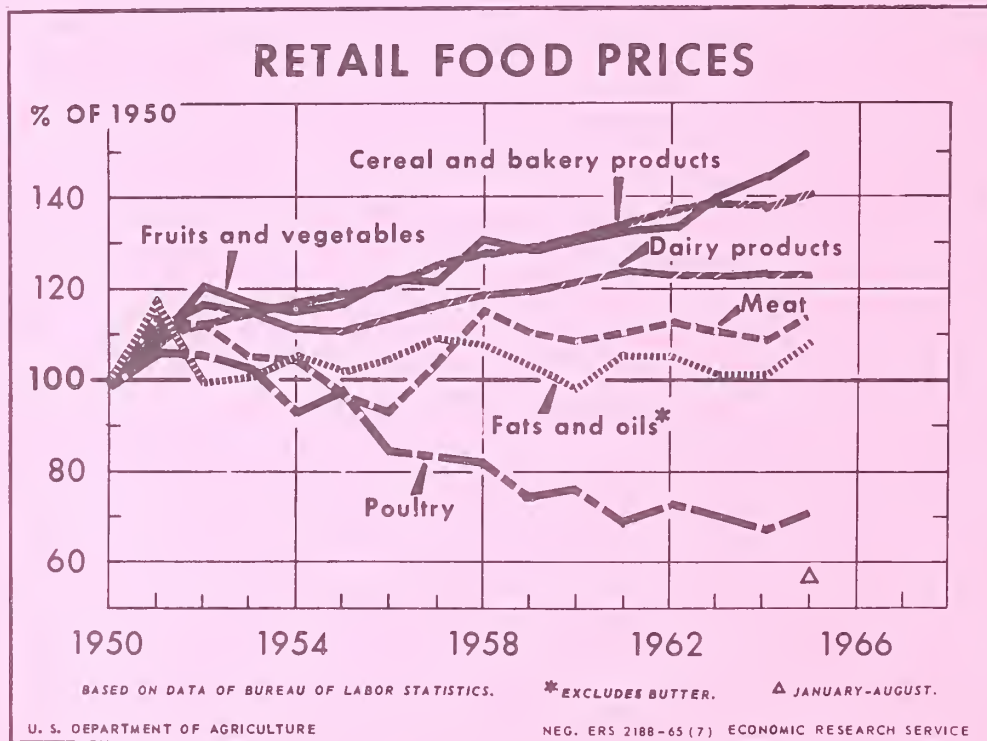
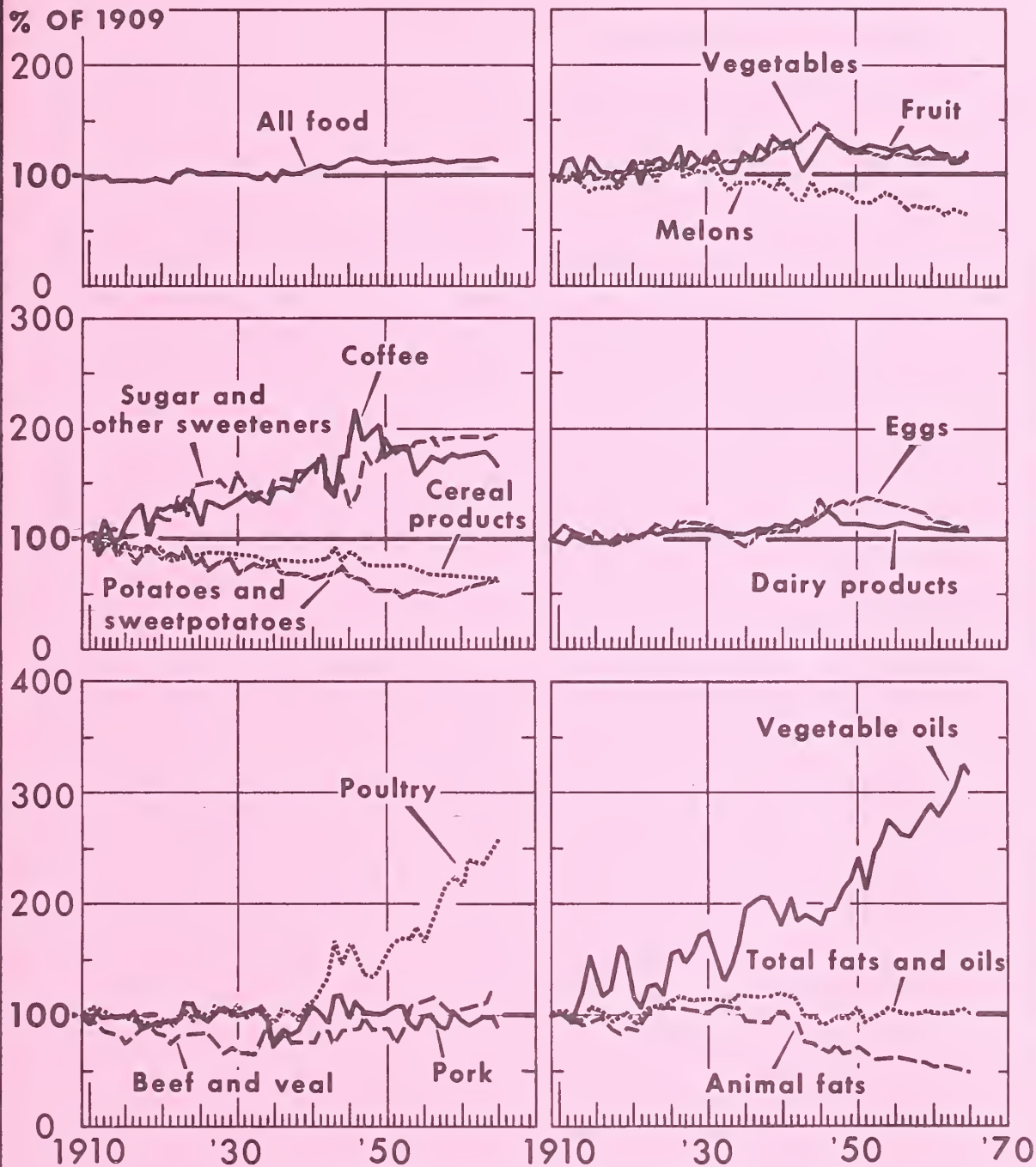


Fig. 8

TRENDS IN FOOD CONSUMPTION *

Per Capita



* ITEMS COMBINED IN TERMS OF CONSTANT RETAIL PRICES.
BUTTER INCLUDED WITH BOTH DAIRY PRODUCTS AND FATS AND OILS.

U. S. DEPARTMENT OF AGRICULTURE

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Fig. 9

Crop Products

The increase in per capita consumption of total crop products in 1965 was due mostly to an increase in citrus fruit. Fresh citrus consumption is rising about 3 pounds per capita to about the 1962 level--prior to the major freeze damage that cut supplies for 2 years--and prices in 1965 are lower than last year. Consumption of frozen orange juice concentrate is up about a third this year. Current crop conditions point to a further gain in citrus supplies in 1966, and prices likely will decline again.

The increase in consumption of citrus is more than offsetting some declines in consumption of other fruits in 1965. Per capita consumption of fresh apples and pears is down, though fresh peach use is up. Canned fruit consumption is up slightly, particularly for pears. However, sharply reduced harvests of fruit for processing are resulting in much lower packs this fall for peaches, pears, fruit cocktail, and cherries. Prices for these items likely will increase in coming months.

Short supplies of some fresh vegetables this spring triggered some price gyrations but total annual consumption was not materially affected. Fresh vegetable supplies this fall are moderately larger than a year earlier. Frozen vegetable supplies are larger but canned supplies are about the same as a year earlier. Supplies of processed tomatoes and dry edible beans are down so prices for these products likely will rise in coming months. Prices of processed fruits and vegetables in 1965 averaged lower than last year, but increases are more probable during 1966. Several price advances already have been announced at wholesale for canned fruits and vegetables.

Potato consumption dropped off sharply this year because of a short crop last fall and reduced supplies during the first half of 1965. The decline in consumption this year averaged 5 or 6 pounds per capita, a sizable drop. Consumption of processed potatoes increased, but this was more than offset by the decline for potatoes used fresh. The drop in supplies resulted in a sharp increase in potato prices that lasted through mid-1965. However, the current potato crop is expected to be about a fourth larger than in 1964 so prices likely will continue considerably below a year earlier during the first half of 1966.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

CLOTHING AND TEXTILES: SUPPLIES AND PRICES

Talk by Virginia Britton
Consumer and Food Economics Research Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 11:00 A.M., Wednesday, November 17, 1965

The general situation for supplies and prices of clothing is similar to that of a year ago.^{1/} Supplies of clothing and raw materials continue to be large. Consumer prices as well as wholesale prices of clothing have changed very little. On the other hand, per capita expenditure on clothing has risen noticeably, and many new and improved items are on the market.

Clothing Expenditures

In 1964 over \$33 billion was spent by consumers to buy clothing and shoes, according to the Department of Commerce series on personal consumption expenditures.^{2/} Per capita expenditure in constant dollars was the highest in the history of the series dating back to 1929. The figure was 7 percent higher than in 1962 or 1963, 13 percent above the average for 1947-61, and 4 percent above the previous all-time peaks reached in 1943 and 1946. (See chart 1.)

Part of the increased purchase of clothing is undoubtedly a result of rising incomes. Families, having more money to spend, are "trading-up" on clothing as elsewhere in the budget. The increase in purchase of clothing may also be related to the increasing proportion in the population of persons at the age of maximum clothing expenditures. The proportion 15-24 years old, which was down to 13.0 percent in 1956 and 1957, drifted up to 13.7 in 1961. It then increased to 14.4 in 1962, 14.9 in 1963, and 15.3 in 1964, and is expected to reach 17.0-17.5 in 1970.

^{1/} The present analysis prepared on basis of releases available through October 1, 1965.

^{2/} U. S. Department of Commerce, Survey of Current Business, August 1965.

In 1964 clothing comprised 8.4 percent of personal consumption expenditures in both current and constant dollars. Although this is a small increase from the long-time low of 8.2 reached in 1963, it should be watched since it may signal a reversal of the downward trend (see chart 2). Inasmuch as the Commerce series has recently been revised, you might like to see the summary of per capita expenditures on clothing which follows:

<u>Years</u>	<u>Per capita expenditures</u>		<u>Percent of expenditures for personal consumption</u>	
	<u>1958 dollars</u>	<u>Current dollars</u>	<u>1958 dollars</u>	<u>Current dollars</u>
1929	149	77	13.0	12.1
1930-40	122	51	11.8	10.7
1941-46	151	100	11.8	12.9
1947-61	144	140	9.0	9.4
1962	152	159	8.4	8.3
1963	153	161	8.2	8.2
1964	163	174	8.4	8.4

Consumer Prices

The consumer price level for apparel has risen only fractionally over the past year as measured by the Apparel and Upkeep component of the Consumer Price Index (table 1). In the latest 12-month period for which data were available at the time of writing, July 1964 to July 1965, the apparel index increased 0.6 percent. This rise in apparel prices contrasted with a 1.8 percent rise in the index for all items. As in most recent years, the apparel index continued to rise more slowly than the all-items index.

We also see a continuation of the pattern of unequal increases in price levels of the apparel subgroups with footwear and men's and boys' apparel leading the increase. From July 1964 to July 1965, the index for footwear increased 1.1 percent, while men's and boys' apparel increased 0.8 percent and women's and girls' apparel increased 0.6 percent.

According to August and September trade reports, prices of men's suits were rising 5 to 10 percent this fall. Many shoes for men are \$1 above last year in a leading fall-winter catalog, but children's clothes are showing little change in price from last year for comparable items.^{3/}

^{3/} Trade sources include The Wall Street Journal, Textile Organon, and Chemistry and the Home.

Wholesale Prices of Clothing and Household Textiles

The index of wholesale prices of apparel rose very slightly (0.4 percent) in the period July 1964 to July 1965 (table 2). Price changes were negligible for four of the six apparel categories; but noticeable for two. Men's and boys' apparel increased 1.6 percent whereas infants' and children's apparel fell 1.2 percent.

The wholesale price index for leather footwear advanced 1.6 percent. Men's and boys' footwear increased 2.2 percent whereas women's and misses' footwear rose 1.2 percent and children's and infants' footwear, 1.0 percent.

Parenthetically, we might note that the larger increases in wholesale prices appear to be showing up in increased retail prices this fall, particularly for men's suits and shoes, according to the trade reports noted earlier.

Wholesale prices of the two most important types of household textiles changed only fractionally, but in opposite directions. Wool and part wool blankets increased 0.7 percent, whereas cotton housefurnishings fell 0.6 percent.

Prices and Supplies of Fabrics and Raw Materials

Prices and supplies of fabrics and raw materials provide some clues to future changes in wholesale and retail prices of various clothing items, although retail prices are affected also by many other conditions. A recent report by the USDA indicates that in 1962 farm prices of raw cotton accounted for about 15 cents of the consumer's dollar spent on cotton apparel and household furnishings, and raw wool accounted for about 12 cents of the dollar on wool items.^{4/} Leather specialists report that uncured hides accounted for less than 4 percent of the retail value of leather products. The relation of materials to final prices is illustrated by an example of a shoe that retails for \$9.95.^{5/} The value of the raw leather is 50 cents. Tanning and transportation to the factory add \$1. Material for soles and linings cost about \$1. Add \$3 more for labor, profit, and overhead, and the manufacturer prices the shoes at \$5.50. At the shoe store, add \$2 for salesmen and \$2.45 for overhead and profit, and the retail price becomes \$9.95.

^{4/} L. D. Howell, The American Textile Industry, U.S. Department of Agriculture, Agric. Econ. Report No. 58, November 1964, p. v.

^{5/} Service -- USDA's Report to Consumers, March 1965, p. 3.

While raw fibers comprise a small part of the retail price of finished items of apparel and household textiles, new fiber, natural or manmade, comprises 50-60 percent of the cost of a yard of cloth.^{6/} Therefore, the cost of fibers is important to the manufacturers. They vary the fiber mix to maximize use of the fibers with relatively lower prices. Continued reductions in prices of manmade fibers, as well as marked increases in production and improvements in quality and suitability for specific uses, have placed manmade fibers in a strong competitive position in relation to apparel wool and domestic cotton.^{7/} Prices of these natural fibers have been maintained above their free-market prices by the import tariff on wool and price support operations for cotton.^{8/} Under new legislation, not signed at this date, present price support loans to cotton producers are reduced below world cotton prices for the next four years. The legislation may also increase the minimum support level for wool.

With these considerations in mind, let us move to the price picture for finished materials, yarns, and raw materials. We might start by looking at the fabrics from which the finished garments are made. In the 12 months ending July 1965, wholesale prices increased 9 percent for silk products (which are small in the total picture), 3 percent for broadwoven goods of cotton and of wool, and 1 percent for knit goods of manmade fibers and for leather. At the same time, prices fell fractionally for broadwoven goods of manmade fibers and for knit outerwear fabrics of wool.

When we go back another step to the yarns, we find some declines and some gains in wholesale prices from July 1964 to July 1965. While filament yarns and fibers declined by 2 percent, wool yarns and spun rayon declined fractionally, and cotton yarns increased fractionally.

Prices of some raw materials changed enough during the year ending July 1965 to have some influence on the prices and fiber-mix of clothing in the year ahead. Hides and skins rose 27 percent, which partly explains the expected rise in the price of shoes. The price of raw silk rose 16 percent. But prices fell 8 percent for domestic apparel wool and 19 percent for foreign apparel wool. Prices of raw cotton fell 6 percent and, in addition, since August 1964 domestic mills have received equalization payments designed to equate the prices they pay for raw cotton to the prices paid by foreign mills. These decreases may lead to increased use of cotton and wool fibers and may have a dampening effect on price advances for apparel of cotton and wool.

^{6/} "Textiles Spin Into a Swifter Pattern," Business Week, October 2, 1965, p. 83.

^{7/} Howell, op. cit., pp. 4 and 6.

^{8/} Ibid., pp. 2 and 4-5.

Prospective supplies of fibers appear to be ample. The 1965 cotton crop in the United States is expected to total 15 million bales, nearly 14 percent above expected use in domestic mills and export.^{9/} Use by domestic mills is expected to be the highest since 1952-53 because of advancing economic activity in the year ahead and the improved price position of cotton in relation to its competitors. Wool use will be high. U. S. mills are expected to use approximately 15 percent more apparel wool in 1965 than in 1964. If demand for wool increases in the major manufacturing countries as it has in the United States, a moderate price rise can be expected in late 1965 and early 1966.

Production of manmade fibers continues to increase. The quantity in 1964 was 14 percent higher than the previous year and 63 percent above 1960.^{10/} Production in the first 6 months of 1965 was 18 percent above that a year earlier.^{11/} Rayon was up 8 percent, acetate yarn up 11 percent. Textile glass fiber was up 18 percent. But noncellulosic fiber (excluding textile glass fiber) was up 28 percent, and amounted to 2.4 times the quantity in the first six months of 1960. Construction of several additional plants is underway with the expectation that capacity will be 26 percent higher in 2 years than it was at the end of 1964.^{12/} Production figures include about 1800 cellulosic fibers, 350 textile glass fibers, and 2400 other noncellulosic fibers.

U.S. production of cattle hides in 1965 is expected to be even higher than in 1964. Demand for leather is also expected to be higher because of the increased amount used for high leather boots, loafers and casuals, and military orders. At the same time, there is less demand for patent leathers made from leather.

New Products

New products in the present period involve primarily the consolidation of gains from research and development activities of recent years. The results in improved end use properties of materials are increasingly becoming available on the consumer market.

^{9/} U.S. Department of Agriculture, Demand and Price Situation, July 1965.

^{10/} Textile Organon, August 1965.

^{11/} This figure excludes acetate staple and tow for which quarterly figures are not available.

^{12/} Textile Organon, December 1964.

Trade sources report strong consumer interest in permanently pressed clothing, especially men's and boys' slacks. In one case, sales of such slacks for boys were up 40 percent from the previous fall, even though they cost up to about \$2 a pair more than regular slacks. A large manufacturer expects good sales of the permanent-press shirt, claimed never to need the touch of an iron, which he will introduce by Christmas.

The permanent press results from a chemical treatment, the curing of which is carried out, or at least completed, after the garment is constructed. In order to obtain the desirable degree of durability, most permanently pressed garments are made of fabrics containing 50 to 65 percent polyester fiber blended with cotton. Some are made with a lesser percentage of polyester; some are made with cotton blended with 15 percent nylon; and a few are made from all-cotton fabrics. There is a continuing demand for all-cotton permanently pressed garments. To meet this demand, extensive research is being carried out both by USDA and industry to develop methods for obtaining fabrics with the desired durability.

Consumers and producers are showing increased interest in other textile developments of recent years. Shrink-resistant wool yarns is one of these. WURLAN-treated wools in woven fabrics, machine-knitting yarns, and knit garments are available on the retail market under the manufacturers' trademarks, according to word from our Western Utilization Research Division, developer of the process. A USDA study published in January indicated that retailers see complete launderability as a decided attraction in all-wool items such as sweaters, knit jackets, jerseys, women's popular- and medium-price skirts and slacks, men's and boys' socks, boys' trousers, and retail piece goods.^{13/}

More companies are producing stretch yarns and there is considerable advertising of garments made from stretch fabrics--cotton, wool, manmade, or blends. Spandex type yarn is now available in socks and ladies' support hose.

Vectra hosiery, made of olefin fiber, was launched on the market last fall and winter with a million dollar advertising campaign. It initially appeared in the \$1.65 price class but is now available at 98 cents in the Washington, D.C., area. It is claimed to be more snag resistant than nylon and also warmer in winter and cooler in summer. The limited range of colors (only three shades are available locally) and less resiliency than nylon may slow its capture of the nylon market, according to trade reports.

The leather substitute Corfam is now generally available in higher priced shoes. It is scuff-resistant, durable, and easier to clean than leather. It does not conform to the foot as leather does; therefore the original fit is very important. Its breathability appears to be sufficient for some consumers. As in the case of other products, the consumer needs to compare characteristics in relation to his own needs and preferences. About 20 low-priced leather substitutes are available for low-priced shoes.

^{13/} L. B. Clayton, Completely Launderable All-Wool Apparel: The Potential Market, U.S. Department of Agriculture Mkg. Res. Rep. No. 688, 1965.

Developments in Retail Distribution of Apparel

Although the volume of "downtown" sales has generally been gaining more slowly than the volume in suburban areas, and most construction of department stores in recent years has therefore been in suburban areas, the redevelopment and rejuvenation of city cores has resulted in the building of some new downtown stores. A new store in downtown Dallas, for example, is the first to be built there in 30 years. A leading mail-order company has recently completed a multimillion dollar remodeling project on its retail store in Chicago's downtown Loop area. The project is said to involve the largest retail department store investment in that area in more than 30 years.

Losses because of credit fraud have spurted for department stores and apparel, furniture, and appliance stores. Their losses in 1965 from fraud and bad debts are estimated to be a third higher than last year and about double those in 1962. The 1965 figure amounts to about 0.5 percent of total sales and nearly 1 percent of credit sales in those stores. A major part of the credit fraud involves use of charge plates that belong to others. While a charge plate owner is generally liable for all purchases on his plate, at least until he reports it missing, most stores don't press claims against a customer who loses his plate.

Savings clubs have been established by a number of retailers, perhaps 4 percent, and a further 10 percent are considering them. Generally the customers make 46 weekly deposits and are credited with a bonus of 6, 8, or even 20 percent when they redeem their savings in merchandise at the end of the year. These plans are similar to the Christmas Clubs operated by banks, but the banks pay no interest. One large store in New Orleans dropped its two-year-old savings plan, however, since customers seemed reluctant to tie up money at one store.

The Federal Trade Commission has moved to prevent the replacement of independent local firms by national companies operating department stores. One large chain agreed in August to table any merger plans for five years unless it first notifies the FTC and obtains its consent. Another chain may agree shortly to a similar kind of restriction. FTC, which views the mergers as leading to a deterioration of competition, said that six chains had acquired 45 local stores since 1951.

An amendment in June to the Textile Fiber Products Identification Act permits the mention on labels of fibers that constitute less than 5 percent of the fabric if they have a functional significance. For example, a product may now be labeled 97 percent acetate and 3 percent spandex, for elasticity, instead of 3 percent "other fibers." A new amendment of the regulations under the Wool Products Labeling Act requires that any label on woolen wearing apparel stating "Imported Fabric" must also name the country of manufacture of the fabric. The purpose is to prevent consumers from assuming that the fabric comes from those countries that are famous for their superior wool products. The amendment goes into effect in November.

These recent amendments serve to remind us of the importance of three labeling acts to the retail distribution of clothing and textiles and to any analysis of their supplies and prices.

- (1) The Wool Products Labeling Act of 1939 requires that any product containing wool (excluding floor coverings and upholsteries) and sold in interstate commerce must be labeled to show the percentage by weight of wool, reprocessed wool, reused wool, and each fiber other than wool that amounts to 5 percent or more of the weight.
- (2) The Fur Products Labeling Act of 1951 requires that any article of wearing apparel made in whole or in part of fur and sold in interstate commerce must bear a label stating the true English name of the animal that produced the fur and, when such is the case, that it is used fur, that the fur has been bleached or dyed, and that the fur product is composed in substantial part of paws, tails, bellies, or waste fur.
- (3) The Textile Fiber Products Identification Act, which became effective in March 1960, requires wearing apparel, yard goods, draperies, furnishings, rugs and bedding sold in interstate commerce to carry labels showing the percentage, by weight, in decreasing order, of all fibers (by generic name) that constitute 5 percent or more of the total. The recent amendment permits the mention of fibers that constitute less than 5 percent if they have a functional significance.

FTC strives to investigate reports of improper labeling under all three labeling laws.

The generic (general or family) names of textile fibers that must be used in labeling are as follows:

Natural fibers

Cotton
Wool
Linen
Silk

Manmade fibers--cellulosic

Acetate
Triacetate
Rayon

Manmade fibers--noncellulosic

Acrylic
Glass
Metallic
Modacrylic
Nylon
Nytril*
Olefin
Polyester
Rubber
Saran
Spandex
Vinal
Vinyon

*Not produced in the United States

As you doubtless know, these names may be accompanied by registered trade marks.

Outlook

The recent increase in the importance of clothing expenditures in the total budget may herald the start of an upward trend. If so, adjustments will be forthcoming in other areas of the budget as well as in the production of clothing and textiles.

The outlook for supplies of raw materials and apparel is good. Increased use of cotton and wool is expected. Manufacturers will undoubtedly try new blends of manmade fibers and new varieties of them on the market. We anticipate wider use of recently developed methods for improving the end use properties of materials.

The next few months may see notable price advances for certain apparel items. Increases in shoe prices may appear with the spring lines in December-February. These increases may be 50 cents to \$1 a pair on low- and medium-priced shoes, and as much as \$2 on some higher-priced shoes. Some predictions are that prices of children's clothing will be 5-10 percent higher next spring than this year.

Table 1.--Percentage change in selected indexes
of consumer prices

Index	1961 to 1962	1962 to 1963	1963 to 1964	July 1964 to July 1965
Consumer Price Index	+1.2	+1.2	+1.3	+1.8
Apparel and Upkeep Index*	+ .6	+1.2	+ .9	+ .6
Men's and boys' apparel	+ .5	+1.4	+1.3	+ .8
Women's and girls' apparel	- .1	+ .8	+ .6	+ .6
Footwear	+1.4	+1.1	+ .5	+1.1

*Also includes infants' wear, sewing materials, jewelry, and apparel upkeep services, for which separate indexes are not available.

Source: Bureau of Labor Statistics.

Table 2.--Percentage change in selected wholesale price indexes

Index	July 1964 to July 1965
Apparel	+0.4
Men's and boys' apparel	+1.6
Women's, misses', and juniors' apparel	+ .1
Infants' and children's apparel	-1.2
Hosiery	- .1
Underwear and nightwear	+ .4
Knit outerwear	+ .1
Leather footwear	+1.6
Men's and boys' footwear	+2.2
Women's and misses' footwear	+1.2
Children's and infants' footwear	+1.0
Textile housefurnishings:	
Wool and part wool blankets	+ .7
Cotton housefurnishings	- .6
Cotton fibers and fabrics:	
Raw cotton	-6.1
Yarns	+ .6
Broadwoven goods	+3.2
Manmade fibers and fabrics:	
Filament yarns and fibers	-1.9
Spun rayon	- .5
Broadwoven goods	- .4
Knit goods	+1.4
Wool fibers and fabrics:	
Domestic apparel wool	-7.7
Foreign apparel wool	-19.4
Yarns	- .6
Broadwoven fabrics	+2.9
Knit outerwear fabrics	- .5
Silk fibers and fabrics:	
Raw silk	+16.1
Silk products	+9.1
Hides, skins, leather:	
Hides and skins	+26.8
Leather	+1.1

Source: Bureau of Labor Statistics.

CLOTHING EXPENDITURES PER CAPITA, 1929-64

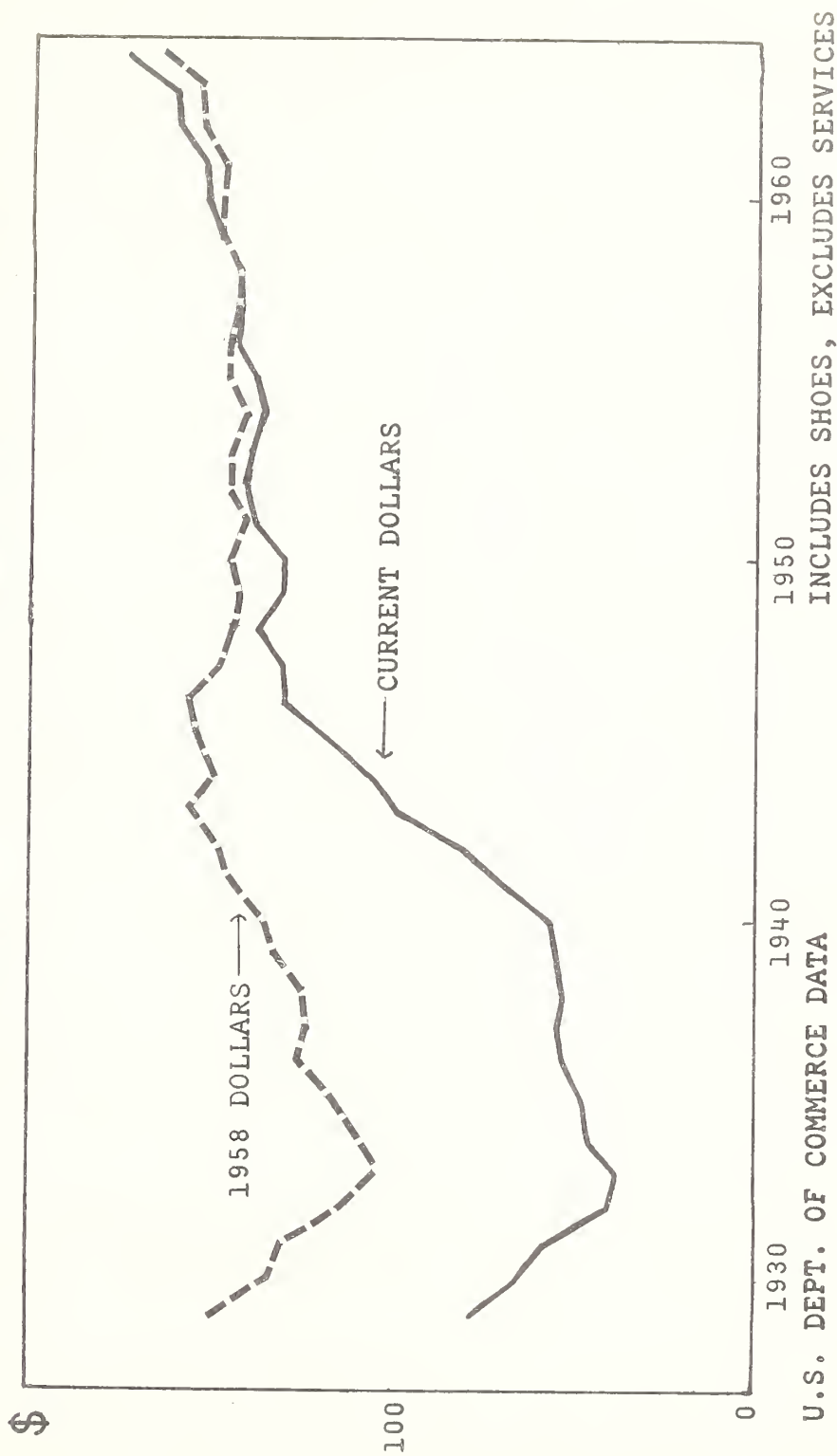


CHART 1

CLOTHING AS PERCENT OF TOTAL EXPENDITURES, 1929-64

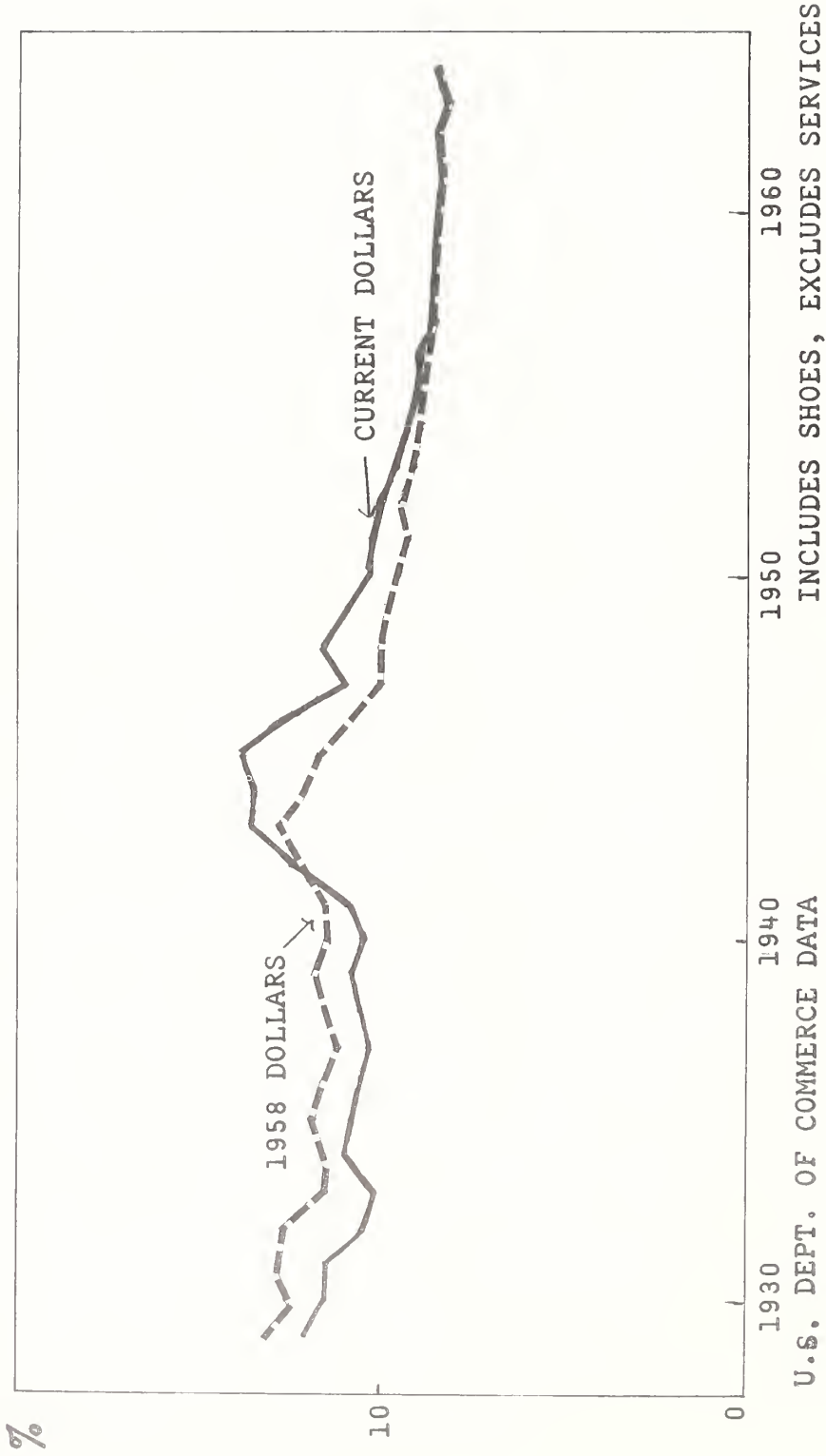


CHART 2

UNITED STATES DEPARTMENT OF AGRICULTURE

HOUSEHOLD EQUIPMENT AND FURNISHINGS: Supplies and Prices

Talk by Ethel D. Hoover

U.S. Department of Labor, Bureau of Labor Statistics
at the 43rd Annual Agricultural Outlook Conference
Washington, D.C., 1:30 P.M., Wednesday, November 17, 1965

The household equipment segment of the consumer goods industry generally reflects the optimism characterizing the economy as a whole. Production and sales during the past year were high, and for a few items like color TV exceeded the most optimistic forecasts.

Part of this high level of consumer purchases in the aggregate is of course due to the fact that there are more people and that a larger proportion of that population consists of young people who marry and begin their life as a separate family. Part is due to the increases in wages and salaries so that there is more money to spend, and the reduction in excise taxes added some additional amounts.

But the influence of our goals and expectations in our daily living must also be accounted as a factor. As young people establish homes of their own, they include in that home many kinds of convenience equipment that not too many years ago were thought of as luxuries or were not even in existence. Older families too replace outmoded equipment, sometimes long before that equipment is worn out. During 1964, 50 to 65 percent of the sales of refrigerators, stoves, washers and black and white television were for replacement purposes. Even for the relatively new food waste disposers, the replacement rate was 38 percent. 1/

The consumer's willingness to pay the price for quality products and distinctive styles, and the industry's wholehearted cooperation in supplying the products to meet consumer's wants (or generating wants, if you wish) seem to promise another active year for household equipment in 1966.

On prices, no consistent pressure that would affect all or most home equipment items either upward or downward appears to be in the making, but rather a continuation of the kinds of moderate increases for some items and decreases for others that we have been experiencing during the last several years.

1/ Merchandising Week, January 25, 1965, pp. 96-7.

Supply and Demand

So far in 1965, production of the various categories of consumer household goods were at all-time high levels, according to the Federal Reserve Board indexes of volume of production. (See table 1.) Appliances, furniture and rugs, and miscellaneous household goods are up by 5 to 7 percent, while the production increase for TV and radios is about double that for other goods--14 percent. Compared with 5 years ago, the increase in the production indexes range from 33 percent for appliances to 42 percent for TV and radio. The most striking increases over the past year apparent so far for 1965 are in the consumer electronics field, with this year's glamour item--color television--topping all others. Production and sales of color television were estimated at about 80 percent greater in the first 6 months of this year than for the corresponding period last year. Radios and portable phonographs increased by 33 percent or more. Considerable gains were also made by portable dishwashers (26 percent), electric clothes dryers (15 percent) and room air conditioners (14 percent).

With a growth rate of about 24 percent in the 20-29 year age group of the population projected for the next 5 years, it is easy to see why producers and dealers expect continued increases in sales of household goods in the next few years. One recent survey of engaged girls at the University of Maryland on the products they expect to have in their first home would indicate that these expectations are based on very solid judgments. Here are the proportions of the girls that expected to have some of the specified products. 2/

	<u>Percent</u>		<u>Percent</u>
Kitchen range	92	Washer	62
Clock radio	80	Dryer	45
Refrigerator	78	Room air	42
Television (black &	71	conditioner	
white portable)		Freezer	28
		Dishwasher	26

Lest I give you the impression that all producers and dealers feel buoyant about ever higher and higher sales, I do want to say that there are quite a number of retailers who are particularly cautious about forecasting more than a small steady advance. Also, none of them show signs of thinking that selling efforts will not be required. There are few, however, who do

2/ As reported in Merchandising Week, August 9, 1965.

not feel that there will be some increase in buying by the consuming public, but probably not at as large a growth rate as that enjoyed so far in 1965. Spotty areas of slow retail sales are showing up at present in appliances and furniture. Various reasons are being advanced such as sluggishness in new housing starts, the appeal to consumers of TV and stereo over the more prosaic kitchen and laundry equipment, and the fact that sales have been so good that some weakness is to be expected as a higher degree of ownership of the major appliances and furniture is reached.

On the demand side, however, all reports and comments indicate that consumer confidence in continued prosperity will lead to a continuation of the buying pattern of the last several years. "Trading-up" to higher qualities, purchases of additional products to increase convenience and entertainment have been evident. The demand for higher quality has been particularly noticeable in the furniture and homefurnishings.

The desire for more of the products for the home show up in the figures put out each year by McGraw-Hill on the proportion of wired homes with specific appliances. The data for some of these products are given in table 2. As usual during the past 5 years, refrigerators and irons top the list, with radio and television not far behind. You will notice that the proportions are greater than a year ago for most of these items, giving us a renewed sense of the many comforts and conveniences we enjoy in our homes.

Trends in Prices of Household Equipment

During the past 5 years, the general trend in prices for all housefurnishings combined has been slowly downward. Short period fluctuations have been within a very narrow range--2 or 3 index points at most. In June of this year, the index for housefurnishings was 2 percent below the level of the 3-year average for 1957-59. After mid-year the removal of Federal excise taxes from some of the appliance items was a contributing factor in bringing the index for all housefurnishings down to the lowest level reached in 15 years--specifically since August 1950.

This sustained downward movement for housefurnishings is in contrast with the sustained upward movement in the Consumer Price Index for all goods and services. This contrast is evident in chart 1. The index for all items in September of this year was about 8 percent higher than at the beginning of 1960 while the index for all housefurnishings is 3 percent lower. Over these 5 years, all commodities went up by 5 percent, while all services increased by more than 10 percent.

The major influence in the downward trend of the housefurnishings index was appliances. The continuous downward movement in the price index for

these household items is unique in the price history of the past 5 years. Chart 2 shows the movement of the 2 most important index subcategories--a moderate upward movement in prices for furniture and bedding for a total increase of just over 3 percent in 5 years and a steady downward movement for appliances, TV and radio, that resulted in a decrease of more than 10 percent since 1960. Floor coverings and textile housefurnishings such as sheets and towels make up the remainder of the housefurnishings group. These 2 categories have generally shown moderate fluctuations during the past 5 years for a net increase of about 1 to $1\frac{1}{2}$ percent.

The changes in prices for a number of individual items over the past year are given in table 3. In the appliance category, all of the items sampled for the index showed declines over the past year, by amounts ranging from 1/10 percent for kitchen ranges to more than 7 percent for room air conditioners. The same similarity of movement among items did not occur for floor covering and furniture and bedding. Instead, we find the usual pattern of some increases and some decreases. A longer history of the price movement for a few of the individual items is shown in chart 3. Except for a few temporary increases with the introduction of new models, the prices for refrigerators and television sets conform with the general pattern of steady price decline mentioned earlier for appliances. Living room units and soft surface floor coverings are moderately higher than 5 years ago. The reduction of $2\frac{1}{2}$ percent for soft surface floor coverings during this year followed an increase due to high prices for carpet wools last year. In addition prices for some man-made fiber rugs have declined by smaller amounts.

I would like to interpolate a few words of technical explanation at this point. The price trends I have discussed relate to merchandise of approximately the same quality from period to period. When there are quality differences from one pricing date to another, the Bureau does not make a simple comparison of the prices quoted. Instead it uses the best information available on what the value of the quality difference is, and eliminates that value from the appropriate price before computing the price change for the index. Hence, the Bureau's indexes of price change for many commodities differ materially from simple comparisons of prices for goods that have different quality characteristics at two periods of time. For example, I recently compared the change in prices of refrigerators in one city over a period of 8 years. The average for the refrigerator sold and priced at the beginning of the 8-year period was \$233 and at the end \$247, an increase of about 6 percent. Over this same period, the BLS price measure showed a decrease of 21 percent, because we had eliminated the effect of the overall size increases, greater frozen food storage capacity, changeover from manual defrost to automatic or frost free, and the addition of some accessories inside the box.

When we focus the forecasting glass on prices during the coming year, this mixture of quality and price difference must be kept in mind. In a number of cases, the new models now appearing in the appliance, radio, and TV field carry higher price tags than 1965 models, but they have also incorporated features that have resulted from continued research and technology. For these goods, most signs point to further decreases, when viewed from the "pure" price angle. Production is expected to continue upward to new higher levels and sales expectations during the coming year are generally optimistic for most goods. There are a few spotty shortages--some TV color tubes or cabinet types, for example--but these are not expected to have any significant continuing effect on prices or supplies.

For other household equipment, 1965 has also been a year of high production and sales. The coming year is expected by industry and retail groups to see the attainment of new peaks in sales. On prices, the past 5-year pattern of moderate increases seems likely to continue on into 1966. Several firms have announced price changes on the order of 3 to 5 percent for some upholstered goods and some case goods. There are a few reports of difficulties in attracting factory laborers to the furniture field as well as relatively mild shortages of some of the desired lumbers and upholstery fabrics. For floor coverings also, the outlook for 1966 appears to be a mixture of price increases and decreases with a probable balance at little change over 1965. Continued small declines for the man-made fiber products and some small increases in wool products, and increases in hard surface floor coverings appear in the offing for 1966.

Product Developments

In past years, I have tried to outline for you the developments in products for the home by putting most of the emphasis on three things: technical improvements that can be expected in the coming year, research or thinking underway that may yield something new in the next 5 or 10 years, and claims of improvement during selling efforts that were somewhat exaggerated so that their real value was often obscured for the consumer when actual usage did not measure up to the claims made for them. Style features were mentioned where necessary, particularly for furniture where style changes over the years have been important.

This year my remaining remarks cover the same types of developments, but I am sure that you will be far more aware of the pervasiveness of styles in most of the goods being produced for the home. The tendency of today's more affluent consumer to look for and demand higher quality has apparently created a very favorable climate for producers and dealers to emphasize the more expensive, highly styled products with special color or decorative

effects. These esthetic values come at some cost--enough higher than the conventional ones that you will be interested in the reaction of a Cincinnati dealer when he sold a fancy refrigerator. A price reduction and the excise tax cut brought the price of the refrigerator down to \$670. The dealer said he pointed out to a prospective customer that "since the price had been cut and the excise tax had come off it was a very good bargain, and she said, 'I'll take it.' After someone sprinkled water on me I got up off the floor and wrote out the order." 3/

While time does not permit going into all the many style effects that are now prevalent or are planned for the coming year, you should watch for them, know what they are, and what price tags some of the unusual styles carry. The experiences so far on refrigerators, for example, seem to be that the high style items create considerable interest but that they represent a relatively small proportion of sales. Customers come into the stores to see them, and then usually buy the more conventional styles appropriate to their needs and pocketbooks.

Television - The current glamour item in the home is, of course, color television, with the new rectangular tube receiving most attention. As you know, most of the rectangular tubes in the 1965 models were 23" or 25" size. Since these tubes are about 5" less in depth than the round tubes, the sets are less bulky and increased furniture styling of the cases is apparent. The production of a 21" or 22" rectangular color tube received considerable attention during 1965 and in mid-September a significant number of the color models for 1966 were expected to be in this smaller size. However, the 21" round tube sets were expected to predominate because of a tight supply situation in rectangular tubes. This tight situation has worsened recently with increased demand for color. Before the end of the 1966 model year, it is expected that color will be available in portable sizes with 19", 15" and 11" tube sizes. Tentative prices for these models range from \$250 to \$450.

In addition to the development in tube sizes, there are additional changes in components that have improved the quality of color reception markedly. So with the increased color programming by TV broadcasters, improvements in the TV receivers and the wholehearted adoption of color TV by the consuming public, it looks as though the optimistic outlook of the trade for the color boom to last through the next several years may be justified (some say the boom will last for more than 10 years).

I wish I could tell you the technical details of something that is now in the experimental stage and is expected to be in working model form in

3/ Merchandising Week, November 1, 1965, p. 10.

about 3 to 5 years. It is described as a solid-state electroluminescent scanner replacing cathode-ray tubes and giving flat, picture-on-the-wall displays. If I have visualized the result correctly, development of a flat wall screen would appear to be a logical step in the effort to reduce the depth dimensions of the home TV receivers. So I look forward with interest to this particular development.

While color television has attracted most of the attention, "tinyvision" in black and white is also of considerable interest. These sets, some with screens as small as 4 inches, were first developed in Japan and are now being manufactured in the United States. Both plug-in and transistor models are available in some lines with prices ranging from about \$70 upward to \$200 or more. These small sets seem destined to be "that extra set," as a pattern emerges of a color set in the living room and smaller portable black and white sets used for bedroom, recreation room, patio, summer cottage, boat, etc.

Ranges - For kitchen ranges, there is a continuation of the efforts to provide easy cleaning features. These include removable teflon-coated panels or other removable oven liners; intense heat self-cleaning ovens; and lift-off oven doors, top heating elements, cooking surfaces and rack supports. Some of the new stoves feature programmed cooking, no-turn broilers, meat probes, etc. Not all of these features are new but they are appearing on an increasing number of models. The development of a microwave oven, which I talked to you about in 1959, appears to be almost at the point where production will be more than a token in the home range field. Up to this time, the chief application has been for commercial use. For the few home ranges, the retail price has been around \$800, too high for volume sales. A significant proportion of retail dealers feel that the retail price of an electronic eye-level type kitchen range should be somewhere between \$350 and \$500. A recent announcement was made by one producer that he will begin to test market a new microwave oven in the spring at the \$400 level. In making the announcement he indicated that he felt the microwave oven will be an auxiliary unit in the home to heat food quickly (hamburger heated in 20 seconds) but that "browning of steaks and turkeys is a problem."

Laundry equipment - An interesting review of the influence of textile fiber developments on the history of automatic laundry equipment recently appeared 4/ as the setting for one company's introduction of a new model incorporating a new technical "breakthrough." A quick summary of this history starts back in 1937 when the first automatic washer was marketed.

4/ From an Industry in Motion, by Martin R. Miller, Merchandising Week, October 25, 1965, pp. 14-15.

In the following year, the introduction of nylon and glass fiber heralded the proliferation of man-made fibers that led to an increasing number of controls on laundry equipment. Some of the means adopted to cope with the requirements for laundering articles of the many kinds of man-made fibers were to increase the number of cycles and to introduce 2- and 3-speed washers. Still more recent was the introduction of programmed push-button controls preset by the manufacturer so that the housewife could select separate and different laundering cycles appropriate for the articles to be washed. The rest of the story is that of providing the housewife, through solid-state controls, "an 'infinite' choice of speed settings on her washer while assuring her that the agitate and spin speeds can handle the most delicate fabrics, ones ordinarily washed by hand."

The first solid-state device for laundry equipment was developed in 1960. It was a timing device, but was expensive and considered too large to be practical. An electronic "sensing device" was introduced by a large company in 1961 on an electric dryer and is now generally available on the products of most companies. This sensor continually measures the moisture content of clothes in the unit and automatically shuts the unit off when clothes are dried. In 1963, one company test-marketed a washer with solid-state controls that allowed an infinite number of settings within set limits for agitation and spin speeds. This washer was not put into full production, perhaps because of the relatively high price tag. This year's introduction represents the top of the company's washer line, and utilizes the solid state control with infinite settings inside certain set limits. Full production begins this month. These units will be 16-lb. capacity and will probably sell for something between \$230 to \$350. A matching dryer will be available. Since this is the first washer in regular production utilizing solid state devices, it represents another mark in laundry equipment history. If the usual filter-down process occurs from top of the line models to models purchased in volume, we may find these controls in a major number of the home washer models sometime in the next few years.

Refrigerators - For refrigerators, the filter-down process of desirable or popular features that I just mentioned for washers, is very evident. The frost free boxes are generally available. Some manufacturers have the frost free feature in about half of their total line, and some in all but the least expensive models. The automatic ice maker has also proved popular--it was in about 90,000 of the units sold last year; the estimate for this year is for about 175,000 units, and even higher for next year. Other features being added are seven-day meat keepers and adjustable many-position shelves. Additional attention is also being given to moveability. In the last several years, wheels were provided on some models. This year, one producer has added on some models an air cushion device activated by fingertip control.

The air from a type of vacuum cleaner with a blower connection floats the refrigerator a fraction of an inch above the floor and makes it possible to move the refrigerator with little effort.

Vacuum Cleaners - There are two developments in cleaning equipment I should like to mention. One is the recent introduction of cordless vacuum cleaners. The price differentials over the cord types amount to \$50 and more. Some reservations have been expressed by people in the trade as to how satisfactory they will prove to be since running time is short (less than an hour) and recharging time is long (one estimate of the least time is 17 hours).

The other development is the built-in vacuum cleaning system, an adaptation to the home of a system used in large office buildings for a number of years. This system has a permanently installed heavy duty vacuum unit (with waste receptacle) located in the basement or some other place remote from the living area. Tubing or wiring from this unit to outlets at various places in the living quarters allow connecting just a hose and lightweight attachment for cleaning. The advantages and disadvantages of these systems in the household were reviewed by Consumers Union last year. 5/ Since such a system is now being actively promoted by several distributors, the advantages of performance and convenience and the disadvantages of costs and inconveniences are of interest. The units tested by Consumers Union performed more consistently than tank cleaners even after dirt accumulated in the waste receptacle, but for rug cleaning neither the central system nor tank cleaners were as satisfactory as good uprights. The absence of a trailing cleaner was a desirable convenience, but a long hose (24 ft. or more) presented some maneuvering and storage problems. One disadvantage was cleaning and emptying the heavy waste receptacle relatively infrequently as compared with throwing away a disposable paper bag more frequently. The relative price difference between conventional cleaners at \$50 to \$90 and a central system costing anywhere from \$200 to \$500 (depending on number of outlets and cost of installation in new or existing homes) is a factor to be considered.

Furniture - As in earlier years, the wide choice of styles and sizes of furniture continue to be of dominant interest. The annual survey of the most popular styles of upholstered furniture by Fairchild Publications, Inc. shows that this year "contemporary" is still the most popular, with colonial and traditional styles tied for second place, French and Italian provincial are holding their own, while the Mediterranean styles are growing fast and the Scandinavian are fading. 6/ This survey also found that reclining chairs

5/ Consumer Reports, July 1964, pp. 339-340, and The Annual Buying Guide Issue of Consumer Reports, published December 1964, pp. 53-54.

6/ Home Furnishings Daily, September 15, 1965, pp. 14 and 16.

have gained considerably in popularity over the year. I suppose this is another reflection of the quest for comfort.

These same styles generally predominated the fall markets for other types of furniture--for example, contemporary and Italian provincial in medium to high priced brackets were good sellers for the dining room, along with some English styled groupings. The bulk of bedroom furniture was contemporary, traditional, or Early American in medium price ranges.

Although the emphasis in the furniture field continues to be on styling, the search for plastics and other materials to replace veneers and solid woods goes on. There are reports that these substitute materials have found their way into frames for upholstered pieces and many of us have seen the use of plastics instead of wood for drawers and drawer guides. The plastics mentioned last year that are processed to look like wood have apparently gained consumer acceptance.

The furniture industry is, however, taking a serious look at what might lie ahead. At a conference in San Francisco in August, considerable emphasis was put on the different needs of a mobile population. (It was estimated that one out of 5 families moves each year.) With mobility, ownership of large bulky items can be a nuisance and the idea of rental of major furnishings was advanced. If we let our imaginations go, we might see "furniture-of-the-month," like "art-of-the-month," the system under which works of art are rented for a period. Even if furniture rental never becomes a reality, there is so much looking ahead and planning for the next 15 or 20 years, that taking score at the end of the period will be an interesting experience.

Which brings me to the current efforts to sell the larger size beds. The increase in the average height of both men and women--about 2 inches since 1900--is one of the points in the promotion, in addition to greater comfort. The king and queen size mattresses, and the sheets, blankets, etc. for these larger sizes represent a much greater outlay than for standard sizes (e.g. one catalog showed mattresses at \$150-\$300 for large sizes compared with \$59-\$159 for standard, \$52.97 for king size electric blanket and \$28.97 for the standard size). These price differences led to the following comment in one consumer publication: "Supersize bedding does not give you the most for your money. If you're average size, better stick to standard-size bedding. And if you hang onto it long enough, your standard-size bed may one day be a rarity. For the bedding industry predicts it will be selling nothing but supersizes in five years." 7/

7/ Everybody's Money (Credit Union publication), Summer 1965.

Household Textiles - There is one coming development in the curtain, drapery, and bedspread field that is an application of a process that was big news in the "no-iron" apparel field last year--that is the use of "durable press" for "pleats, creases, shapeholding that can create a new, fresh look that has long been needed" as one trade publication expressed it. 8/ Aside from the need to consider the technical aspects of the process, and how they can best be adapted to the household textile field, the cost factors are also receiving attention. Some firms favor the low to medium priced lines for its introduction, while others advocate improving the curing methods to create a new style look they feel their industry needs.

* * * * *

Needless to say, these remarks do not begin to do more than give you a quick run down of a few of the many things that have happened. In the remaining few minutes, I would like to again mention styling. Promotional efforts this year, and undoubtedly next year because of the interest evidenced this year, is on decorative effects at relatively high prices. Color keyed appliances have become quite common, even though they were virtually unknown as little as 10 to 12 years ago. The decorative trend showed up in room air conditioners early in the '60's. The past two years has seen the appearance of decorator keyed appliances. I examined the brochures of one producer several days ago and found the same designed fronts available for all the kitchen equipment, including the refrigerator, range, built-in oven, and dishwasher.

As Merchandising Week put it (November 1, 1965 issue, p. 9) "The best news for manufacturers and retailers is that the new generation of buyers combined with an older style-conscious group is willing to pay a little more for merchandise designed with a flair." Whether a significant volume of buyers will be willing to pay the price for the very high style effects is a question that will probably be answered for us during the coming year. Whatever the answer, there are side effects in that the less highly styled products eventually take on a bit of the "flair" and contribute to a bright, colorful home.

8/ Home Furnishings Daily, October 29, 1965, p. 1.

Table 1. Indexes of Production of Consumer Household Goods, 1957-1965

(1957-59=100)

<u>Year</u>	<u>Home Goods Total</u>	<u>Appliances</u>	<u>TV and Home Radios</u>	<u>Furniture and Rugs</u>	<u>Miscellaneous Home Goods</u>
1957	96.6	94.6	105.2	94.7	97.2
1958	92.8	93.2	87.6	93.0	93.9
1959	110.7	112.3	107.4	112.3	108.4
1960	110.8	111.5	101.2	111.9	112.2
1961	112.2	110.6	107.8	112.8	114.5
1962	122.2	121.4	109.2	123.9	125.7
1963	129.6	130.6	109.5	131.3	133.6
1964	141.1	141.1	125.7	142.4	144.7
1965 <u>1/</u>					
Jan	151.7	148.5	143.6	150.6	157.9
Feb	152.7	150.8	142.9	152.6	157.5
Mar	154.0	152.3	146.8	152.7	158.9
Apr	152.1	151.7	141.3	152.0	155.8
May	151.8	149.7	141.6	154.4	154.7
Jun	151.3	152.1	139.2	153.5	152.6
Jul	149.7	145.4	141.3	152.4	153.8
Aug	148.8	142.7	141.9	154.5	151.7

1/ Seasonally adjusted data.

Source: Data published by the Board of Governors of the Federal Reserve System.

Table 2. Proportion of Wired Homes Having Selected Electrical Appliances, January 1, 1964 and January 1, 1965

<u>Major Appliances</u>	Jan 1 1964 Percent	Jan 1 1965 Percent
Refrigerators	98.3	98.3
Vacuum cleaners	79.5	81.2
Washers	78.1	79.7
Electric ranges:		
Free standing	29.7	30.1
Built-in	9.6	10.5
Dryers (electric and gas)	22.5	24.2
Freezers	22.4	23.2
Air conditioners (room)	15.4	20.2
Food waste disposers	11.4	12.5
Dishwashers	9.0	11.8
<u>Radio and Television</u>		
Radio	93.8	97.9
Television, total	93.4	n.a.
Black and white	93.4	94.1
Color	n.a.	5.1
<u>Small Appliances</u>		
Irons	97.4	98.3
Steam (incl. steam and spray)	70.6	73.9
Toasters	79.9	81.1
Mixers	68.3	70.4
Coffeemakers	65.5	68.5
Frypan skillets	44.9	46.4
Electric blankets	29.6	32.4 ^{1/}
Hotplates	22.4	22.5
Can openers	15.0	19.7
Blenders	9.9	11.0

^{1/} Bed coverings.

Source: McGraw-Hill Publishing Co., Inc.: Merchandising Week, January 25, 1965, p. 29.

Table 3. Consumer Price Indexes for Selected Housefurnishings 1/
(1957-59=100 unless otherwise specified)

Item	Indexes			Percent change	
	Dec. 1963	Jun. 1964	Jun. 1965	Dec. 1963 to June 1965	June 1964 to June 1965
CPI - All Items	107.6	108.0	110.1	2.3	1.9
<u>Housefurnishings</u>	98.8	98.6	98.2	-.6	-.4
<u>Floor coverings</u>	102.1	103.3	101.4	-.7	-1.8
Rugs, soft surface	101.7	103.2	100.6	-1.1	-2.5
hard surface	103.4	104.4	105.0	1.5	.6
Vinyl, tile <u>2/</u>	100.0	100.2	98.9	-1.1	-1.3
<u>Furniture & bedding</u>	102.3	102.3	102.9	.6	.6
Bedroom suites	99.7	99.3	100.1	.4	.8
Living room suites	103.7	104.1	105.6	1.8	1.4
Lounge chairs, upholstered <u>2/</u>	100.0	99.7	99.3	-.7	-.4
Dining room suites <u>2/</u>	100.0	100.8	102.8	2.8	2.0
Sofas, upholstered <u>2/</u>	100.0	100.0	98.9	-1.1	-1.1
Sofas, dual purpose	102.0	102.3	102.3	.3	0
Sleep sets, hollywood bed type <u>2/</u>	100.0	99.0	99.6	-.4	.6
Box springs <u>2/</u>	100.0	99.1	100.3	.3	1.2
Aluminum folding chairs <u>3/</u>	n.a.	100.0	100.0	n.a.	0
Cribs <u>2/</u>	100.0	100.6	100.9	.9	.3
<u>Appliances</u>	91.1	90.1	88.0	-3.4	-2.3
Washing machines	88.6	88.1	86.9	-1.9	-1.4
Vacuum cleaners	82.5	81.6	80.4	-2.5	-1.5
Refrigerators (refrig-freezers)	89.7	88.9	87.2	-2.8	-1.9
Ranges, gas or electric	95.7	94.9	94.8	-.9	-.1
Clothes dryers <u>2/</u>	100.0	99.4	98.3	-1.7	-1.1
Air conditioners <u>3/</u>	n.a.	100.0	92.7	n.a.	-7.3
Garbage disposal units <u>2/</u>	100.0	99.4	98.9	-1.1	-.5
Television sets <u>4/</u>	91.7	90.0	88.0	-4.0	-2.2
Radios <u>4/</u>	90.3	88.8	85.4	-5.4	-3.8
<u>Textile Housefurnishings</u>	101.9	101.7	102.6	.7	.9

1/ Revised series.

2/ December 1963=100.

3/ June 1964=100.

4/ Included in indexes for "appliances" and "All items," but not for "housefurnishings."

Consumer Price Index ALL ITEMS AND HOUSEFURNISHINGS

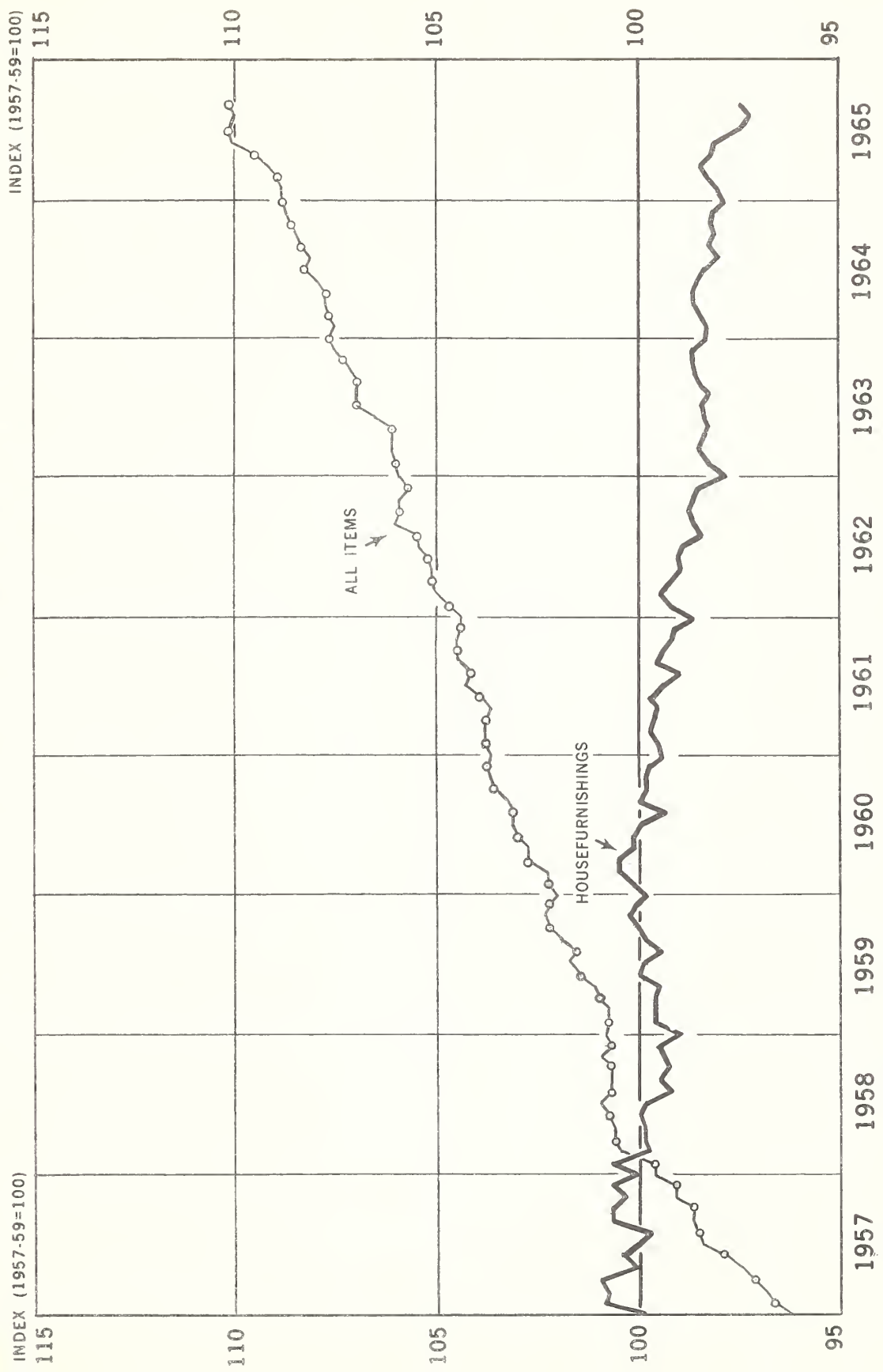
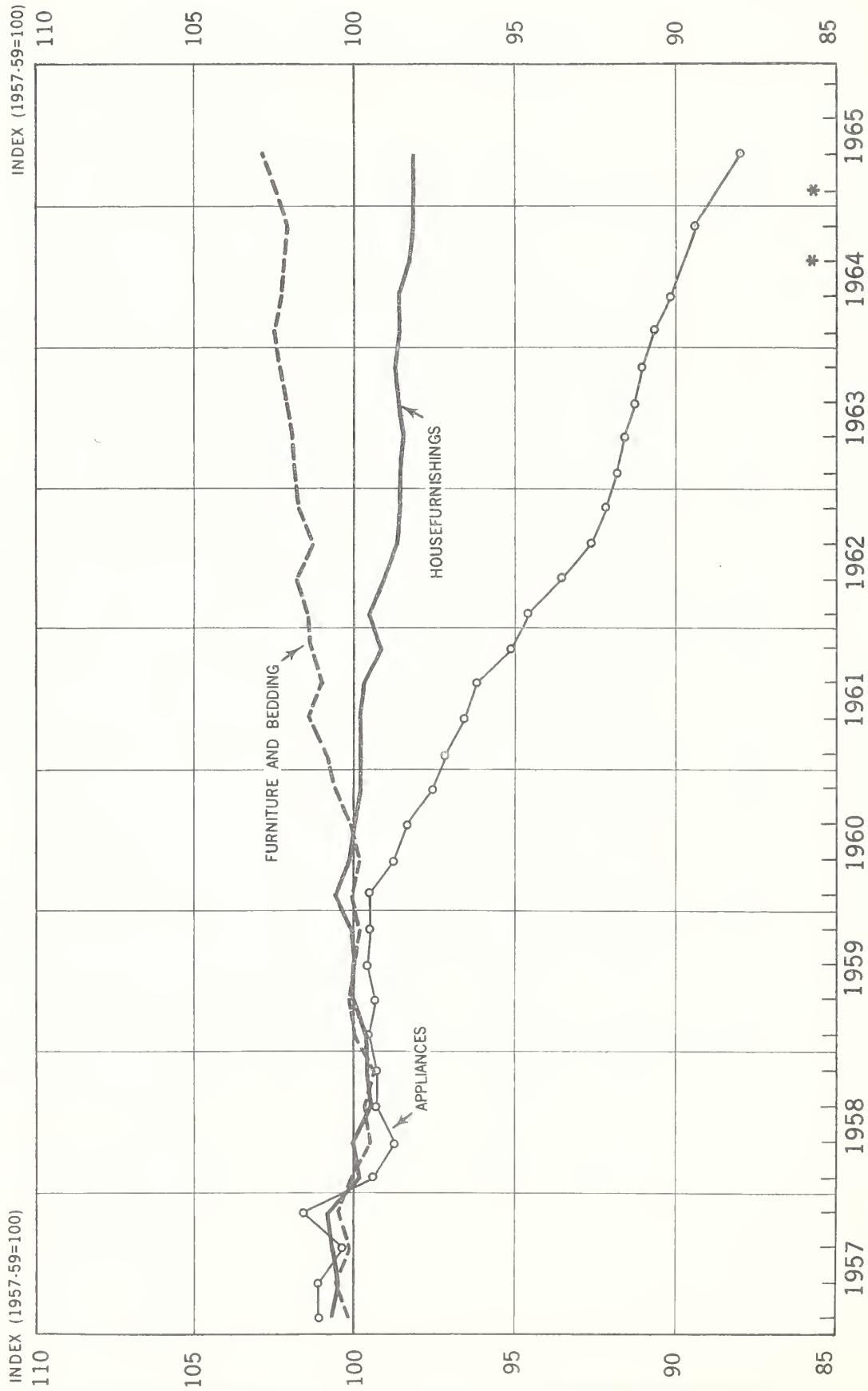


Chart 2.

Consumer Price Index ALL HOUSEFURNISHINGS AND SELECTED SUBGROUPS

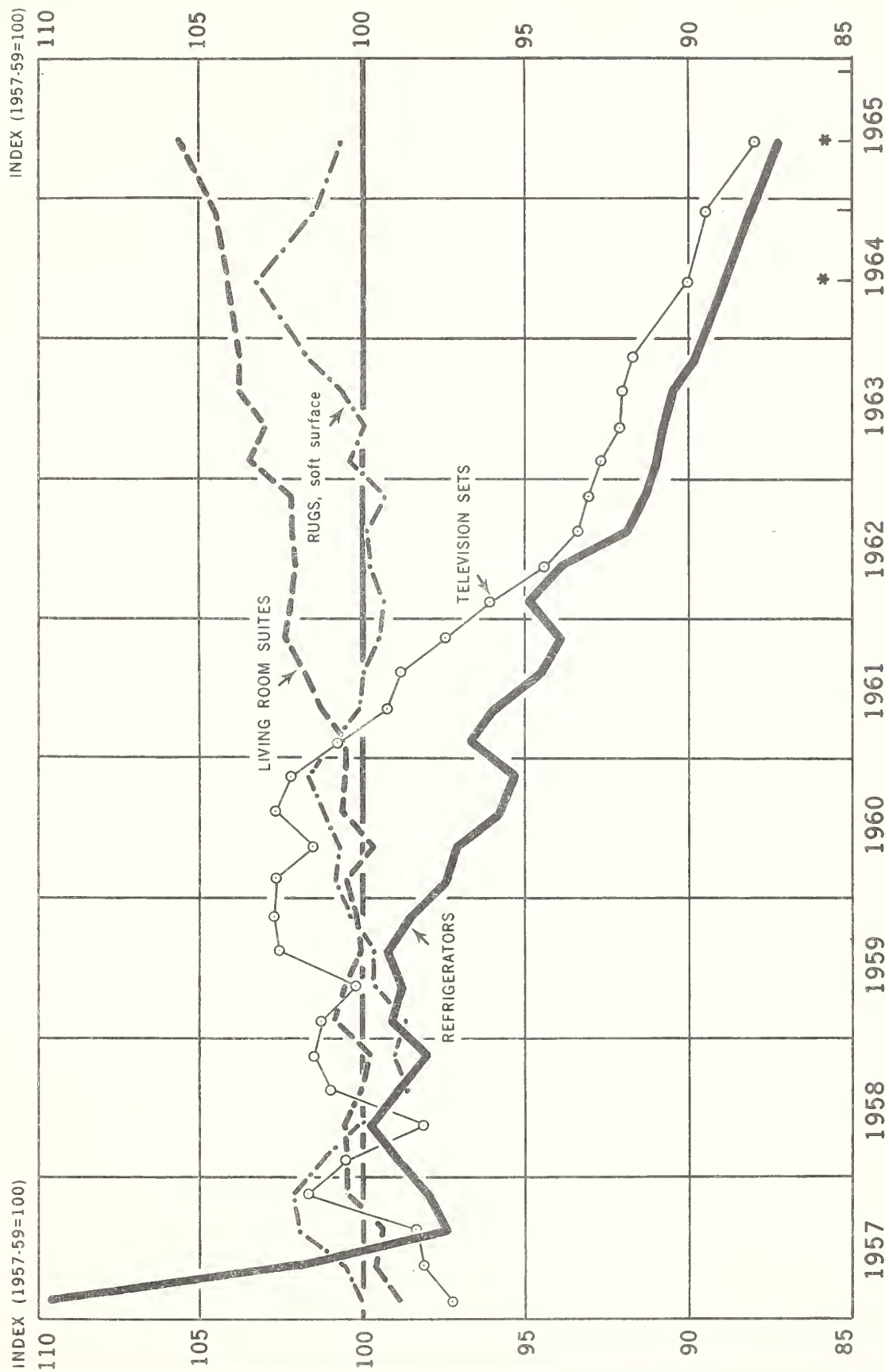


UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

* Quarterly data available through June 1964; semi annually thereafter

Chart 3.

Consumer Price Index SELECTED ITEMS OF HOUSEFURNISHINGS



* Quarterly data available through June 1964; semi annually thereafter

UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS





UNITED STATES DEPARTMENT OF AGRICULTURE
Farmers Home Administration

THE HOUSING AND URBAN DEVELOPMENT ACT OF 1965

Talk by Ralph Turner
Rural Housing Loan Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 2:15 P.M., Wednesday, November 17, 1965

The Housing and Urban Development Act of 1965, which was signed by the President on August 10, is one of the most important pieces of housing legislation passed since the original housing act. It contains several new programs and improves and extends existing authorizations. This 1965 law is a major step toward achieving the goal of giving families in cities and in rural areas an opportunity to have a decent home.

I will review briefly some of the major changes in the new law and then discuss more fully the important changes in Title X which are directly related to housing in rural America.

One of the new approaches to providing adequate housing for families in the lower-income levels who cannot afford to pay for standard private housing in the regular market is the authority to make supplementary rent payments. Under this program, families in an area whose incomes are below the low-income levels that would be established for that area would receive the benefit of monthly payments sufficient to enable them to occupy privately financed housing.

Although this new approach to helping low-income families have a decent home is authorized by law, the program must await the appropriation of funds before it can become effective.

To qualify for rent supplements, the tenants, in addition to having low incomes, must be either elderly, handicapped, or displaced from their homes by Governmental action, occupants of substandard housing or occupants of housing extensively damaged or destroyed by natural disaster.

Tenants would be expected to pay 25 percent of their income for rent. The difference between their payments and the market rent for the units would be made by the rent supplement payment to be provided by appropriated Federal funds. The amount of rent supplement payment would be reduced as the tenant's income increases and the rent supplement would be discontinued entirely when the market rent does not exceed 25 percent of the tenant's income. Tenants could continue to occupy the housing even though they were no longer receiving rent supplement payments.

Under this program, certain nonprofit groups, limited dividend corporations, or cooperatives may sponsor housing for low-income families. The Federal Housing Administration will insure mortgages on housing built or substantially rehabilitated for the rent supplement program.

The 1965 law also authorizes the Federal Housing Administration to insure loans for the development of land for residential subdivisions. Under this program, mortgages may be insured to finance the purchase of land and the installation of improvements such as water, sewer lines, streets, curbs, gutters, sidewalks, and storm drainage facilities. One of the objectives is to provide better land use planning and development. Consistent with this objective, the development must represent sound land use and comply with a comprehensive plan for the development of the area. Consideration must be given to facilities such as shopping, schools, recreation, and other facilities necessary to the orderly development of a community.

Another feature of the new law authorizes the Administrator of the Housing and Home Finance Agency to make grants to local bodies and agencies to finance up to 50 percent of the development cost of public water and sewer facilities as well as two-thirds of the cost of neighborhood facilities such as community centers, youth centers, health stations, and other public buildings to provide health and recreational services in primarily low- or moderate-income neighborhoods.

Of special interest to families in rural areas is the increase in the maximum loan from \$11,000 to \$12,500 under the 203 (i) program of the Federal Housing Administration. This is a program designed to encourage more use of the Federal Housing Administration insured loans in small towns and outlying areas.

Other provisions of interest to individual families are the liberalized downpayment requirement for Federal Housing Administration insured loans.

Of direct concern to those of us engaged in serving rural communities is Title X of the 1965 Act. This includes far-reaching changes that will greatly broaden the opportunities available to rural families to have a decent home of their own.

Title X of the Housing and Urban Development Act recognized the need for additional housing credit in rural areas. It also recognized that a special type of assistance was needed for families in a rural environment - an environment in which construction on individual scattered lots is the rule and large-scale developments are the exception. Or stated differently, the initiative and responsibility for building a new home usually must be assumed by the families. They have little opportunity to shop for a home.

This expanded rural housing program promises to be a major step toward giving rural people equality of opportunity to have a decent home.

Historically, the rural third of our population has been less well housed than the two-thirds who live in cities and suburban communities. In this third of our population, 4.5 million families are living in homes that need major repair or replacement. The incidence of substandard housing is almost twice as great in the country as in the cities.

And much of the substandard housing in the country is unnoticed. It is less visible than the slums in our cities. It is off the beaten tracks and in the hinterlands; it is down the side roads and in the hollows and small towns of Appalachia and the Ozarks and in the clay hills and coastal plains of the South and in the cut-over regions of the Lake States. It is tucked away in areas where you will not see it if you fly or travel on major highways. This may be one reason why housing in the country has received much less attention than substandard housing in our cities.

Three major changes were made this year in the rural housing program of the Farmers Home Administration. These changes will help meet the widespread need for better housing in rural America. They are:

1. The basic program, under which loans are made to individual families, was placed on an insured basis.
2. The authority was broadened to permit any rural family to buy a building site on which to build their home or to buy a previously occupied home.
3. The concept of a rural area was extended to include places with not more than 5,500 population that are rural in character.

Under this new insured program, loans totaling \$300 million can be made each year by the Farmers Home Administration to families with low or moderate incomes. The interest rate on these loans is 5 percent.

Loans may also be insured for families with incomes above the moderate level. These families will pay interest rates comparable to the interest and insurance rates paid on home loans insured by the Federal Housing Administration. The current rate is 5-3/4 percent.

At first glance, this new insured loan program for rural areas may appear to be similar to the home loan program of the Federal Housing Administration. Functionally, it is the same in that it is a means of giving an individual family an opportunity to obtain long-term credit from local or central money sources.

The operation of the program, however, is somewhat different - different in order to meet the housing credit needs of families in rural areas who cannot obtain housing credit from other sources. The housing program of the Farmers Home Administration is specifically designed to help individual families who want to build or improve their homes. In most cases, these are families who have relatively low incomes and have had little experience and understanding of lending and construction requirements and practices.

Loans are made by the Farmers Home Administration to individual families to help them build, buy, or improve their homes. Farmers also may obtain loans for farm service buildings. These loans are held by private investors and insured by the Farmers Home Administration.

Families interested in obtaining a home loan may apply at the local Farmers Home Administration office serving the county in which the property is located. In a county office, employees of the Farmers Home Administration accept the application and check on the applicant. A county committee of three local residents determines whether the applicant is eligible. Most loans are approved locally.

The third change I mentioned is the new definition of a rural area. It now includes towns with populations of not more than 5,500 that are rural in character. In the past we have not made loans in any rural place with a population of more than 2,500. In 1960 there were about 2,000 rural towns in the United States in the 2,500-to-5,500 population category. Many of these towns are out of reach of the central money markets and housing credit in these places is not readily available, particularly for the families with low or moderate incomes.

This new concept of a rural area includes

1. A third of our population, and
2. Half of the substandard housing, and, incidentally,
3. About 98 percent of the privately owned land in the Nation.

This is a real challenge to all of us interested in broadening the opportunities to rural families to have a decent home.

Within rural areas are some groups with particularly serious housing problems. One such group is the elderly.

A third of our elderly live in rural areas. But they have more substandard housing than the two-thirds of the elderly who live in urban areas.

Many are living with relatives or in housing that does not even offer the basic facilities essential to health and comfortable living.

Low incomes of a high percentage of our rural elderly have contributed to their substandard housing. Their meager incomes have been needed to buy food, clothing and to pay medical bills. Housing improvements have been deferred because of the harsh economic facts of an inadequate budget. This has accelerated the rate of deterioration of the homes in which many of our elderly people have lived.

Most of them live in small towns. In 1960, for example, 12.3 percent of the population 65 years of age and over lived in small rural towns compared to 8.8 percent on farms. Some of our rural counties have heavy concentrations of persons 65 years old and over. In fact, in 1960 there were 300 such counties in the United States. These are largely rural counties.

The authority we have to make loans to elderly rural families to help them have a decent home of their own recognizes two basic facts. One is that rural people are accustomed to having a home of their own even during their retirement years. And the other is that low incomes are a barrier to many of the elderly having a decent home of their own. The law therefore permits the use of a cosigner on notes when the elderly applicant does not have sufficient income to repay a loan. This has been used quite extensively.

Our senior citizens housing program has had a modest beginning, but interest is increasing. Since it started several years ago, we have made about 4,000 loans totaling almost \$20 million to families to help them build, buy, or improve a home of their own. The 1965 law continues a maximum 4 percent interest rate on direct loans and permits amortization periods up to 33 years.

Another phase of our housing program for the rural elderly is loans to finance rental housing. This housing may be separate houses, duplexes, or apartments and, in any case, must be designed for independent living.

Direct loans may be made to private nonprofit organizations and consumer cooperatives. These loans bear 3 percent interest and may be repaid over a 50-year period. The 3 percent interest rate is a new maximum established by the 1965 housing law. These low-interest rate loans may be used to finance housing for elderly rural families with low or moderate incomes.

In 1965 our authority to insure loans for rental housing has been extended for four years. These loans may be made to private individuals or corporations or other organizations interested in providing housing for the rural elderly. Since these loans may be made to applicants interested in

making a profit from the rental of the property, the loans bear 5-3/4 percent interest. They are repayable over a period up to 40 years.

To date we have made and authorized approval of 125 of these loans totaling \$7.5 million. The average cost per unit has been about \$7,000 with rents ranging from a low of \$35 to a high of \$105. The \$105 rent is for a 2-bedroom unit and includes utilities.

Adequate housing for the elderly can be provided through community action. Let me give you an example of what happened in Oak Grove, Missouri. Here a group of local citizens formed a nonprofit organization. Membership contributions provided the initial capital needed to start operation of a senior citizens rental housing project. The Farmers Home Administration made a loan of \$108,000 to finance 20 units and a recreational building. The rents are reasonable, ranging from \$35 to \$40 a month. They are within reach of low-income families. This housing is something that the community of Oak Grove needed, wanted, and will support. In fact, the organization already has requested a subsequent loan to build more units.

Title X of the Housing and Urban Development Act also extended for four years and increased the authorized funds for a new program to help improve the housing of our domestic farm workers. They are the poorest housed people in rural America. More specifically, last year the Congress authorized a program under which grants could be made up to two-thirds of the cost of construction to help finance housing for domestic farm laborers. These grants are available to public bodies and to broadly based nonprofit organizations interested in providing housing as a community service. This program recognizes the economic difficulties involved in providing housing for low-income families who are employed for a relatively short time in any one location and who may actually need housing at three or four locations during the year. The amount authorized to be appropriated for grants was increased from \$10 million to \$50 million and the authority was extended for four years. An initial appropriation of \$3 million is available this year to start this program.

I also want to mention another law passed this year which will affect the health and welfare of rural families. It is the new water and sanitation law - Public Law 89-240 - which amended the association loan authorizations in the Consolidated Farmers Home Administration Act of 1961.

The Farmers Home Administration has for many years had authority to make loans to finance water systems in the open country and in rural towns with populations up to 2,500. This new law recognizes that in many cases water systems and waste disposal systems in rural areas are not economically feasible if they must be financed solely with loan funds. This new legislation became law on October 7. It:

- provides financial assistance for rural waste disposal systems.

- authorizes, for the first time, grants to supplement loans for rural water and waste disposal systems. Grants may not exceed 50 percent of the construction cost of a project.

- authorizes, for the first time, grants totaling \$5 million a year for comprehensive planning of water and sewage systems.

- increases from 2,500 to 5,500 the size of rural towns eligible for such assistance.

- increases from \$1 million to \$4 million the maximum size of a loan, or a combination loan and grant, for water supply or waste disposal systems.

The new legislation holds great promise of improving the health and living conditions in rural areas. It also will help reduce the initial cost of homes and stimulate the construction and improvement of rural homes. The benefits of this new program will extend far beyond the community in which the people live. Many of our rural communities today are adding to the pollution of our lakes and streams. The benefits from installation of adequate sewage plants will help reduce such pollution and greatly improve the quality of the water.

The Congress has made \$20 million available for grants to start this new program. It also has increased the loan insurance authority for loans to finance water distribution and waste disposal systems.

Lending agencies generally - and the Farmers Home Administration in particular - are better equipped than ever before to help rural families who have the capacity to repay a loan have a decent home of their own.

What has been done to improve living conditions of rural families is a modest beginning. Much more needs to be done. The challenge ahead is how can we - and I mean all of us interested in the development of rural America - help make our rural communities better places in which to live.

United States Department of Agriculture
Economic Research Service

OUTLOOK FOR FATS, OILS, AND OILSEEDS IN 1965-66

Talk by George W. Kromer
Economic and Statistical Analysis Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D.C., 9:15 A.M., Thursday, November 18, 1965

The U. S. supply of edible fats, oils, and oilseeds during the 1965-66 marketing year that started October 1 is forecast at 17.2 billion pounds (oil equivalent of oilseeds). This is 5 percent more than the 16.4 billion pounds available last year and slightly above previous record of 1963-64. The increase is due to the record 1965 soybean crop, which will more than offset declines in starting stocks of food fats and the prospective reduction in lard output. While further increases in domestic use and exports are in prospect, carryover stocks on September 30, 1966 will rise above this year due to some buildup in soybean stocks.

Domestic disappearance of edible fats and oils in 1965-66 probably will rise about in line with population growth--requiring an additional 125-150 million pounds (oil equivalent to around 12 million bushels of soybeans). This would leave approximately 6.8 billion pounds (oil equivalent of food fats, oils, and oilseeds) available for export and carryout stocks in 1965-66 compared with 6.1 billion during 1964-65.

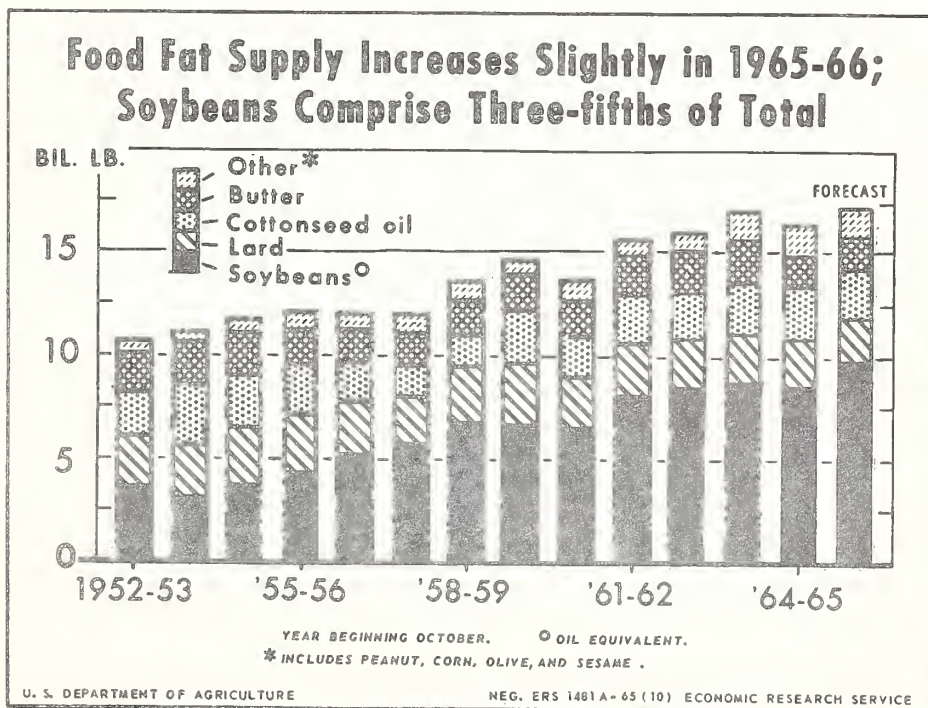


Figure 1

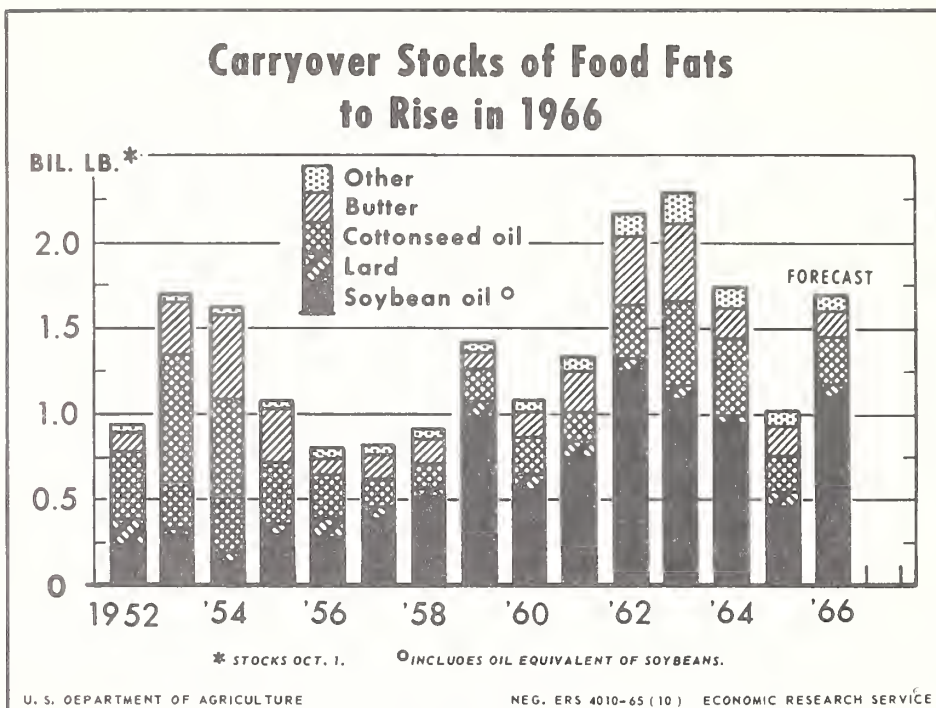


Figure 2

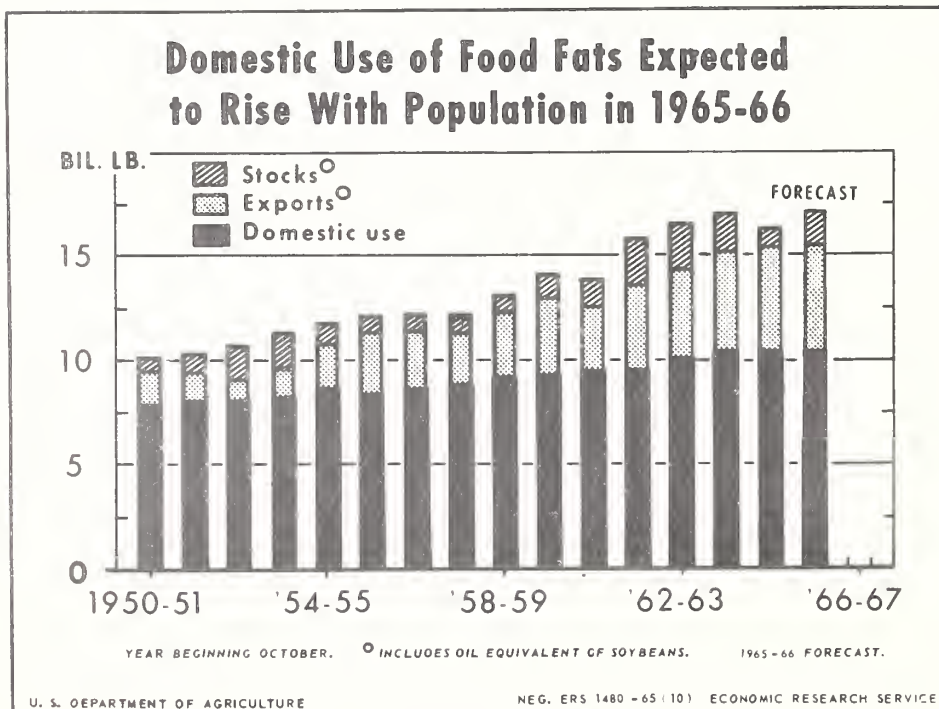


Figure 3

Exports of edible fats and oils (including the oil equivalent of soybeans) through September 1966 are forecast at 5.2 billion pounds, up slightly from 1964-65 as increased shipments of soybeans will more than offset declines in edible animal fats. Such a total export volume would account for about one-third of the 1965-66 U. S. output of these commodities.

Exports of edible vegetable oils (cottonseed and soybean) for the 1965-66 marketing year are forecast at 2.0 billion pounds, about the same as last year's record. Exports under the Food for Peace Program (all Titles of Public Law 480) are estimated at 1.1 billion pounds and dollar sales at 0.9 billion pounds. Soybean oil is expected to account for about three-fourths the total compared with two-thirds in 1964-65. Favorable factors in the export outlook for 1965-66 are somewhat lower U. S. edible oil prices and prospects for a relatively poor olive crop in Spain for what is supposed to be an "on year". Details comprising the prospective export outlook are shown in the table on page 4.

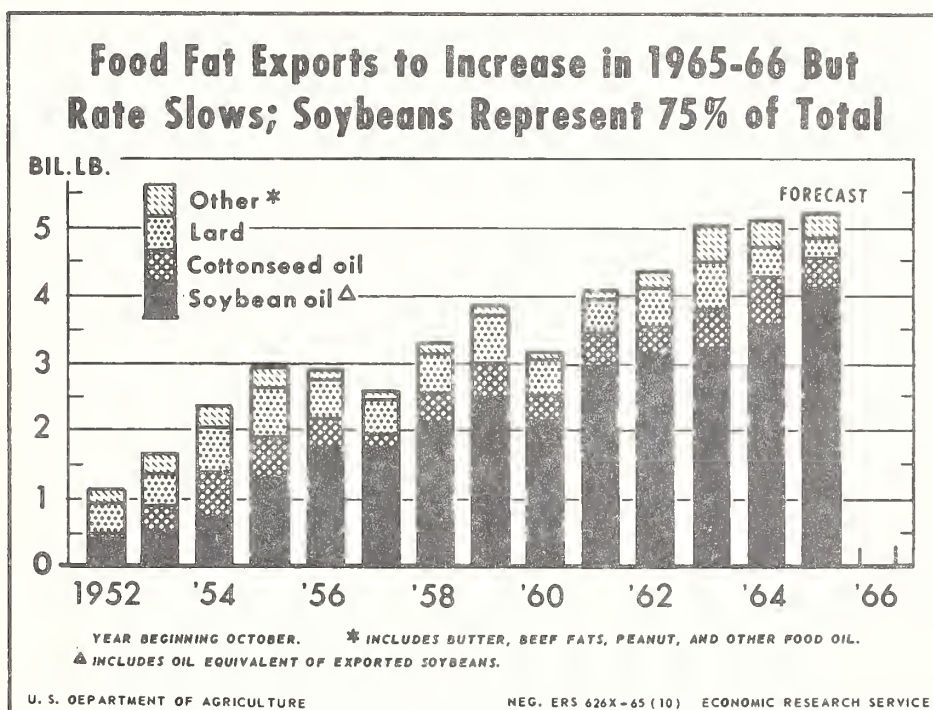


Figure 4

Cottonseed and soybean oils: Dollar and Food-for-Peace exports, 1965-66 forecast compared with 1963-64 and 1964-65

Export financing	Year beginning October								
	1963-64 1/			Preliminary 1964-65 1/			Forecast 1965-66		
	SBO	CSO	Total	SBO	CSO	Total	SBO	CSO	Total
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.
Dollars	508	325	833	490	387	877	600	300	900
Food for Peace: (P.L. 480)									
Title I	409	219	628	472	107	579	---	---	590
Title II	28	5	33	45	---	2/ 45	---	---	50
Title III-Barter	31	---	31	118	66	3/ 184	---	---	150
Title III-Donations	19	33	52	166	79	4/ 245	---	---	175
Title IV	111	1	112	54	---	54	---	---	135
Total P.L. 480	598	258	856	855	252	1,107	900	200	1,100
Grand Total	1,106	583	1,689	1,345	639	1,984	1,500	500	2,000

1/ Partly estimated. 2/ Estimated, based FY '65 country data provided by AID. 3/ Includes 1 million pounds not reported by Census shipped to Okinawa in Sept. '65. 4/ Includes an estimated 8 million pounds shipped in CARE packages and 33.4 million pounds shipped during October-December not reported by Census.

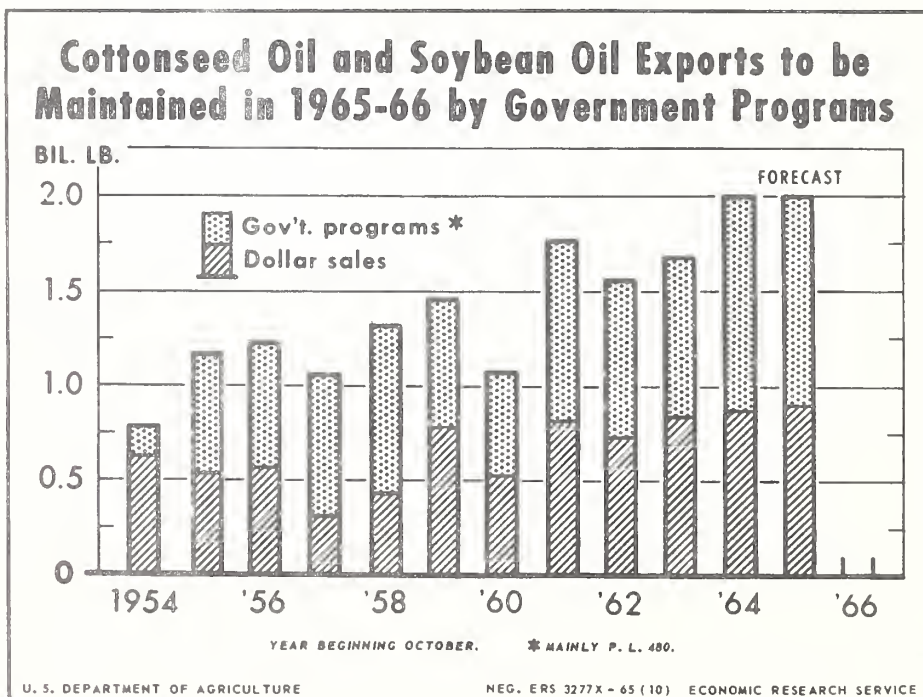


Figure 5

Now let us turn to the outlook for individual commodities.

Supplies of soybeans during the 1965-66 marketing year that started September 1 are estimated at a record 882 million bushels compared with 767 million in 1964-65. Based on November 1 conditions, the 1965 crop was estimated at 853 million bushels, 22 percent above the 1964 and 1963 crops of 700 million bushels. Soybean acreage harvested for beans is up 13 percent and yield prospects, at 24.6 bushels per acre, compared with 22.8 bushels in 1964.

Crushings for the 1965-66 soybean marketing year that started September 1 are forecast at a record 515 million bushels, nearly 8 percent above the 479 million in 1964-65. ^{1/} The industry's processing capacity for 1965-66 is estimated at 600 million bushels. Soybean exports are also forecast at a high of 230 million bushels, 8 percent above the previous year's record. Based on the crushing and export estimates and allowing 50 million bushels for seed, feed, and waste, carryover stocks of soybeans next August 31, will be about 90 million bushels compared with 30 million this year. While this would approximate the previous record carryover in 1959, it would be only enough to satisfy about 6 weeks' requirement for crushing and export.

^{1/} The soybean crush for the 1965-66 oil and meal marketing year that started October 1 is forecast at 525 million bushels compared with 473 million in 1964-65. The reason the crush on an October 1 year is higher is due to the small crush in September 1965 due to the scarcity of beans.

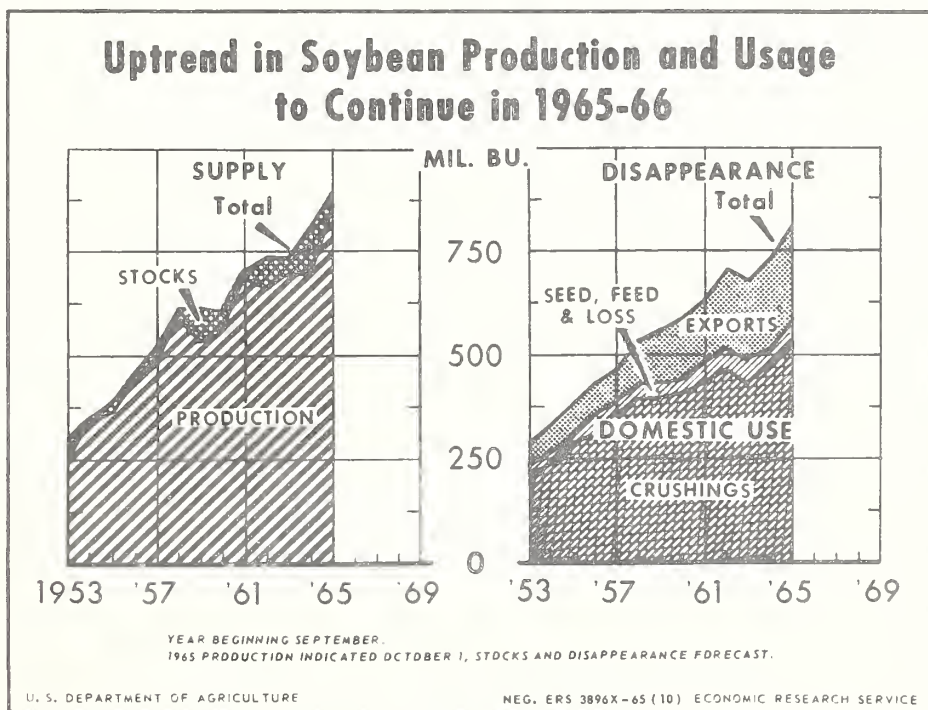


Figure 6

The U. S. season average price received by farmers for 1965-crop soybeans is forecast at about \$2.30 per bushel, little above support price and compares with the \$2.66 received a year earlier.

New-crop soybeans brought price premiums early in the marketing year with prices to farmers averaging \$2.33 per bushel in September-October, 8 cents over the 1965 support rate. Reasons for the strength were the unusually small September 1 carryover (30 million bushels compared with 67 million a year earlier) and late harvesting of the record 1965 crop, due to cold, wet weather. Demand for new-crop soybeans has held strong since oil and meal inventories were low in relation to large domestic and export requirements against earlier commitments. With the big crop and prices near the loan level, many farmers are storing soybeans and placing large quantities under CCC loan. Last year, farmers sold their crop early--three-fourths moving off farms by January 1, 1965. Soybean prices after harvest this year are expected to continue a little above support and vary within a narrow range.

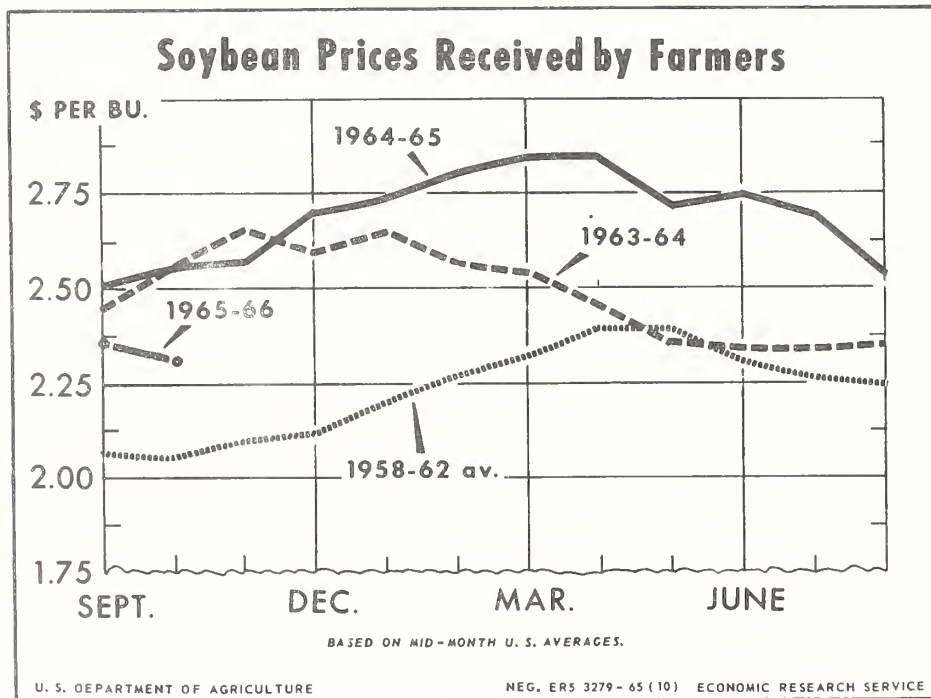
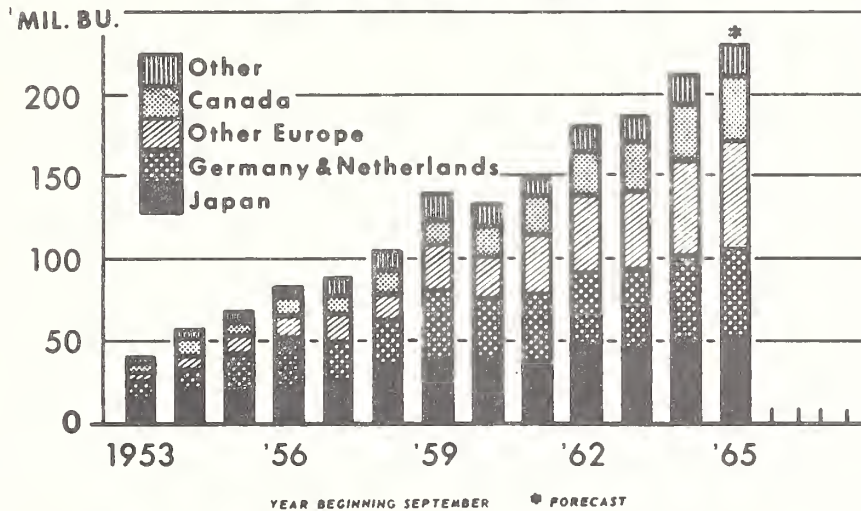


Figure 7

Soybean Exports in 1965-66 to Reach New High as Most Markets Expand

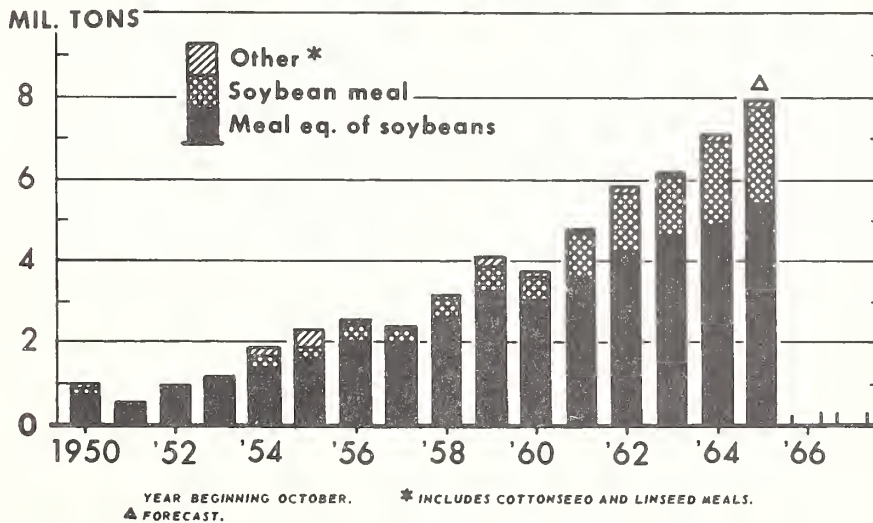


U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 627 X-65 (10) ECONOMIC RESEARCH SERVICE

Figure 8

Oilseed Meal Exports Increase Sharply in Recent Years Because of Soybeans



U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 1485 X-65 (10) ECONOMIC RESEARCH SERVICE

Figure 9

The 1965-66 supply of soybean oil is forecast at 6.0 billion pounds compared with 5.7 billion for the year just ended. Carryover stocks on October 1, 1965, were 0.3 billion pounds (crude and refined), the smallest since the 308 million pounds in 1960. Estimated output for 1965-66 is 5.7 billion pounds. Domestic disappearance is forecast at 4.2 billion pounds and exports at 1.5 billion, leaving carryover stocks on September 30, 1966, of around 0.3 billion pounds.

Factors influencing the domestic disappearance forecast for soybean oil during 1965-66 include: (1) Lower and more steady soybean oil prices are expected this marketing year than last; (2) lard production and usage will be down sharply; (3) buying for domestic donations (school lunch and the needy) will shift from lard to vegetable oil and beef fat shortenings; (4) margarine will continue to make inroads in the table spreads market; (5) little change is in prospect for domestic use of cottonseed oil; and (6) per capita use of food fats probably will remain at around 46 pounds (fat content).

Soybean oil prices (crude, Decatur) for 1965-66 are expected to average below the 11.3 cents per pound in 1964-65, mainly reflecting the reduction in soybean prices this year. Total disappearance of soybean oil likely will be record high, and oil stocks are expected to remain at low levels throughout the year. Prices in October, first month of the marketing year, averaged 11.4 cents per pounds, about 0.5 cents above a year earlier. As the crushing volume picked up, oil prices declined to 10½ cents in early November, 1½ cents under November 1964.

The soybean meal supply for the 1965-66 marketing year that started October 1 is forecast at 12.4 million tons compared with 11.4 million for 1964-65. Domestic disappearance is forecast at 9.8 million tons, 5 percent above the 1964-65 total. Exports are projected at a record 2.4 million tons, about 15 percent higher than the previous year.

Considerations in the domestic disappearance forecast for soybean meal during 1965-66 include: (1) Increasing demand for livestock products; (2) prospects for a higher feeding rate because of favorable feed ratios; (3) Large supplies of soybean meal for feeding at lower prices; and (4) growing competition from synthetic urea as a substitute protein source. The number of high-protein consuming animal units in 1965-66, currently estimated at 146 million, is about the same as a year earlier. Based on these early prospects, the quantity of protein feeds fed per animal unit is expected to rise possibly 3 percent above the 226 pounds fed in 1964-65.

Export demand for soybean meal is strong and continues upward, particularly in Western Europe, where U.S. meal has established a reputation for high quality. The expanding demand for protein concentrates in Europe also reflects increasing demand for livestock products, rising incomes, and preference for meat. Other factors include increased knowledge of the feeding value of soybean meal and continued improvement in feeding practices and price ratios favorable for feeding. U.S. soybean meal exports during October-September 1964-65 exceeded 2 million tons; about three-fourths went to Western Europe.

Cottonseed production in the 1965-66 marketing year that started August 1 is placed at 6,221,000 tons, about the same as last year. A crop this size would produce 2.0 billion pounds of crude cottonseed oil and 2.8 million tons of cake and meal. The 1965-66 season average price received by farmers for cottonseed is forecast at \$46 per ton, slightly above the CCC support rate but a little below the \$47 received last season. Domestic use of cottonseed oil is forecast at 1.5 billion pounds and exports around 0.5 billion pounds.

Cottonseed oil prices (crude, Valley) for the 1965-66 marketing year are expected to average below the 11.5 cents-level in 1964-65. The price premium of cottonseed oil over soybean oil is expected to continue narrow over the next few months as crushings of 1965-crop cottonseed remain high this fall and the supply of both oils become seasonally high.

Cottonseed meal prices (bulk, Memphis) in 1965-66 may average slightly below the year-earlier level of \$60 per ton. Cottonseed meal is used mainly in cattle rations. Reported pasture conditions for the Nation on November 1, 1965, was 83 percent of normal, 6 points above average and the highest November 1 condition since 1959. Pastures were above average in most South-eastern and South Central States. Abundant range feed was available in most Western areas. Hay supplies are up 6 percent from last year and from average.

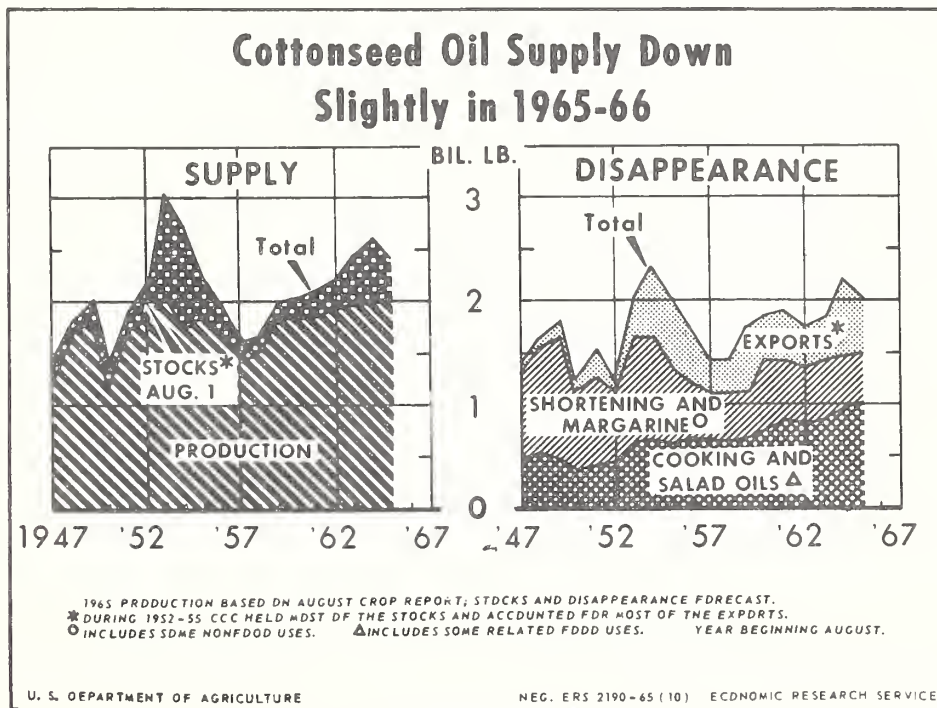


Figure 10

Lard supply (including farm) in the 1965-66 marketing year that began October 1 is forecast at 2.1 billion pounds, 8 percent below 1964-65 and the smallest since 1947. Commercial hog slaughter is forecast at 72 million head compared with 78 million in 1964-65. Lard yield per hog is expected to continue downward and average below the 1964-65 rate of 27.2 pounds. Commercial lard yields have declined from 33.8 pounds in 1951-52. Lower yield chiefly reflect improved hog breeding and feeding practices and the gradual shift to the meat-type hog. Also, when prices are relatively high, packers tend to trim less fat from the pork cuts. An inelastic demand for fatback or salt pork pushes proportionately more of this source of fat into the meat market when hog slaughter is reduced.

Domestic use of lard (including farm) in 1965-66 is forecast at 1,700 million pounds compared with 1,787 million last year. Direct use is expected to total around 1,200 million or about the same as the year before. Manufacturing use is expected to be down sharply mainly because USDA Section 32 purchases for school lunch and programs for the needy shifts from lard to shortening (which excludes lard as an ingredient). During the 1964-65 marketing year, USDA purchased 86 million pounds of lard for Section 32 programs compared with 110 million in 1963-64. Hog prices in 1965 climbed to over 90 percent of parity (they were 107 percent in October).

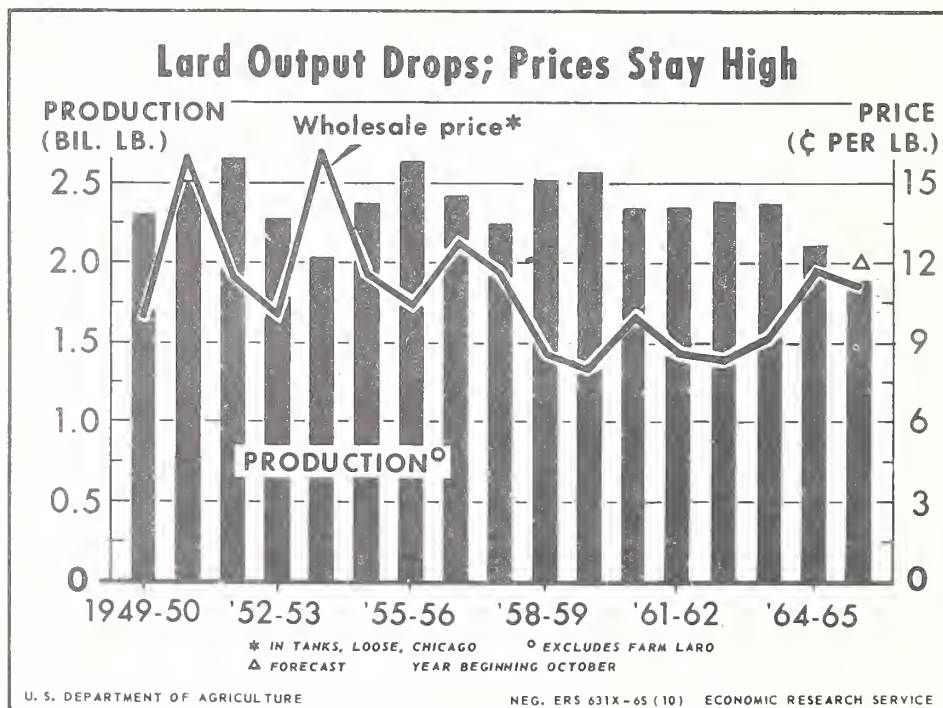


Figure 11

Lard exports and shipments during 1965-66 are forecast at around 325 million pounds compared with 433 million last year. The United Kingdom is the principal foreign outlet for U.S. lard and accounts for 80 percent of U.S. lard exports. Smaller U.S. availabilities and relatively high prices are the major factors reducing lard export prospects this year. Also, hog slaughter and lard output in Europe continues at a high level. In the United Kingdom, margarine and cooking fat manufacturers continue to substitute lard of Continental origin in preference to American lard because of the high level of U.S. prices. European lard prices are influenced primarily by the prices of competing fats and oils, chiefly palm oil, fish oil, and edible tallow.

Lard prices (tanks, loose, Chicago) for the 1965-66 marketing year are expected to average slightly below the 11.5 cents a year ago. Both domestic use and exports are likely to be down in 1965-66 as prices of competitive fats and oils become lower.

Economic outlook information for oilseeds, vegetable oils, and animal fats is published regularly in the Fats and Oils Situation, a processed publication by the Economic Research Service, Economic and Statistical Analysis Division. This statement is a summary of the 1966 Outlook issue, FOS-230 for November 1965.

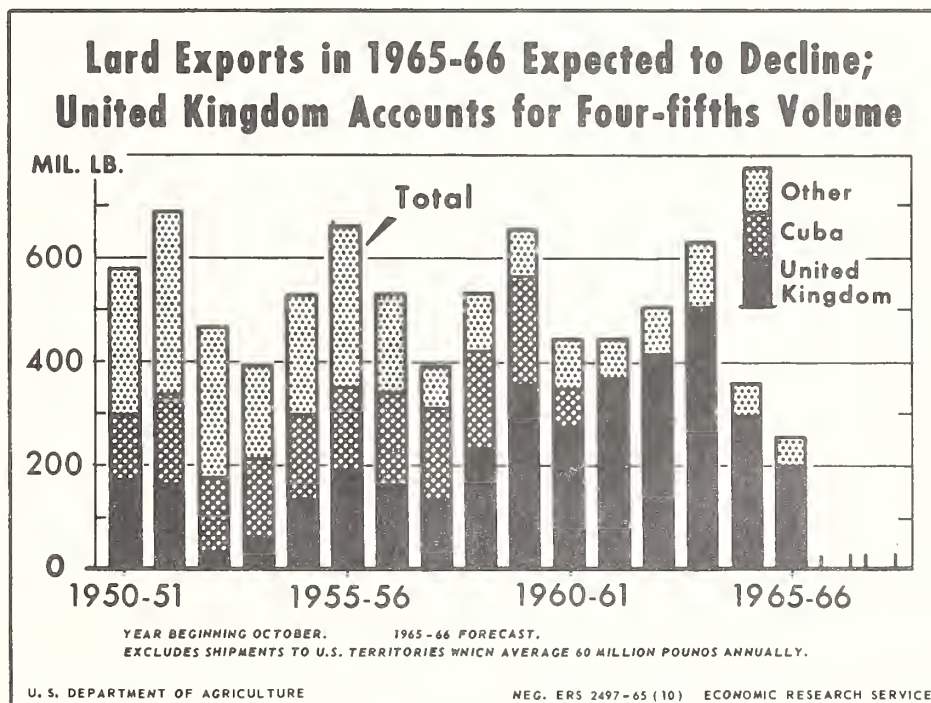


Figure 12

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

HOUSING: SUPPLIES, PRICES, AND OUTLOOK FOR 1966

Talk by Mary Jane Ellis
Consumer and Food Economics Research Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D.C., 2:45 p.m., Wednesday, November 17, 1965

Supply, demand, and price--the national picture

By January 1966 the U.S. housing inventory will include about 65 million housing units for a prospective 58 million households. The estimated 7 million vacant units include about $3\frac{1}{2}$ million vacation or second homes; 1 million units not on the market because they are rented or sold and not yet occupied, used by migratory workers in season, or are dilapidated; and about $2\frac{1}{4}$ million units that are available for sale or rent and are not dilapidated.

Since 1960 annual net gains in the housing inventory are estimated as having been somewhat larger than the annual increases in the number of households. As a result there has been a slight increase in the national vacancy rate from 9.7 percent of the inventory in 1960 to 10.0 percent in 1965. Increased building of vacation or second homes is responsible for the higher rate since vacancies in sale or rental housing have remained at 3.5 percent since 1960 and the number of unoccupied dilapidated units has decreased.

The housing inventory undergoes continual change as new units are built and existing units are converted, merged, demolished, or lost in disasters. Construction of new units, the most important factor in the changing supply of housing, reached a peak in this decade in 1963 and has since declined. The number of new units started during the first seven months of 1965 was about 4 percent less than in the same period in 1964. The total number of new units started in 1965 may be just under 1.5 million.

The demand for housing also changes as changes take place in the growth rate of number of households. Households have increased by about 2 percent per year since 1960. The average annual growth rate has varied for different types of households from 4 percent for individuals who live alone or with unrelated persons to 2.5 percent for families headed by women to 1 percent for families headed by husbands and wives to -1 percent for families headed by men with no spouse present. Households headed by husbands and wives currently make up about 72 percent of all households; single individuals make up 17 percent; families with a female head 9 percent; and families with a male head 2 percent.

The size of family income and how much of it is allotted to housing limits effective demand for new housing or for improvements in the current inventory. Family income has been rising in the 1960's--the median was \$6,569 in 1964, 17 percent higher than in 1960. Housing services (including imputed rental value) currently comprise about 13 percent of personal consumption expenditures in the national accounts and have risen from 10 percent of the total in 1945.

How consumers view the housing market and general economic conditions also enters into the demand for housing. The quarterly surveys of consumer buying intentions by the Bureau of the Census have shown that intentions to purchase either a new or previously occupied house have remained fairly stable in the 1960's.^{1/}

Since the national supply exceeds the demand for housing it would be reasonable to expect that prices have declined, but they have not. The major indexes of prices all show upward trends for housing. Long-term contracts between buyer and money-lender or tenant and landlord, building codes that are often out-dated, set patterns of operation by builders and unions, zoning regulations, and the very nature of local housing markets often inhibit rapid adjustment to a change in supply or demand.

In the Consumer Price Index, rent and the costs of homeownership have moved up about 1 percentage point each year since 1960. Although mortgage interest rates declined, sharp increases took place in rates for property insurance and the costs of home maintenance and repairs. Costs of fuel and utilities have increased slightly in the 1960's.

Prices of construction materials in the Wholesale Price Index were stable from 1960 through 1963. Since 1963 they have moved upward rather slowly. In 1965 prices of some items in this index increased (e.g. plumbing, brass fittings, window glass, concrete and structural clay products, asphalt roofing and hard surface floorings); some decreased (e.g. fir, plywood, paint materials, insulating materials and building board); and others remained practically unchanged (e.g. lumber, millwork, prepared paint, structural steel shapes, hardware, heating equipment, metal sashes, concrete ingredients, Portland cement, and gypsum products). Some of these items are more widely used in residential construction than others and some are more important in the construction of apartment houses than of one-family houses.

Since 1960 the average hourly wages of construction workers (including those in residential building) have increased about 4 percent annually. In the first 6 months of 1965 the average increase was about the same as in comparable periods earlier in this decade.

^{1/} Current Population Reports: Consumer Buying Indicators, Series P-65, No. 11, Aug. 24, 1965. U.S. Dept. of Commerce, Bureau of the Census.

The Boeckh index of construction costs of frame and brick houses has been at an all-time high in 1965.^{2/} Costs have been about 3 percent higher in 1965 than in comparable periods in 1964 according to this measure.

Another indicator of rising prices is evident in the statistics on costs of building privately owned one-family houses (nonfarm only). These costs have been rising at increasing rates in the 1960's. The average privately owned one-family house cost \$16,050 to build in 1964 and \$13,800 in 1960.

Since most consumers finance the purchase of a house with a mortgage, trends in mortgage interest rates and terms are important in long-run costs. According to the Federal Home Loan Bank Board, the average interest rate in September 1965 was 5.75 percent on loans for new homes and 5.89 percent for existing homes. The average term for loans on new homes was about 25 years, for existing homes about 20 years. These are statistics for conventional mortgages (not insured by the U.S. government) and represent little change from the previous September. Conventional mortgages financed about 60 percent of the new private nonfarm one-family homes sold in the 4th quarter of 1964.

In that same period (the 4th quarter of 1964) about 25 percent of the new private one-family homes sold were financed by mortgages insured by the Federal Housing Administration and about 10 percent were guaranteed by the Veterans Administration. About 5 percent did not require a mortgage. The maximum interest rate on FHA-insured or VA-guaranteed loans has been 5.25 percent since 1961. There is an additional charge of 0.5 percent for mortgage insurance premiums on FHA loans.

Failure of the home-buyer to pay the price stated in the mortgage contract results in foreclosures. The total number of foreclosures has increased every year since 1953 but the rate of increase has been slowing down since 1961. The foreclosure rates for 1964 are estimated at about 3 per 1,000 homes with conventional mortgages, about 7 per 1,000 homes with VA-guaranteed loans, and about 12 per 1,000 homes with FHA-insured loans.

Supply, demand, and price in segments of the housing market

Generalizations on the national housing market do not necessarily apply to any one of its many segments. Statistics for the segments discussed below refer to nonfarm housing only.

Regional housing.--Most of the slowdown in construction of nonfarm housing has been in the Western region where housing starts in the first 7 months of 1965 were about 25 percent lower than in that period in 1964. Construction

^{2/} E. H. Boeckh and Associates, Washington, D.C.

was also down about 2 percent in the South. Housing construction increased about 11 percent in the Northeast and about 5 percent in the North Central regions in this same period. In all regions there was a slowdown in construction in metropolitan areas, where building declined about 8 percent compared to 1964. Construction in nonmetropolitan areas was up about 4 percent at the end of 7 months in 1965 compared to the same period in 1964.

The costs of rent and homeownership have risen faster during the 1960's in major cities located in the Northeast and West than in those in the North Central or South, according to the Consumer Price Index.

One-family and multi-family housing.--Construction of one-family homes in the first 7 months of 1965 was at about the same level as in 1964 while construction of apartments was about 11 percent lower than it had been a year earlier. The decline in apartment construction marks at least a temporary cessation of the building boom that produced an over-supply of apartments in some areas, particularly of apartments in the luxury class.

The previously mentioned growth in the number of individuals who maintain separate households has increased the demand for apartments, but it has not been enough to compensate for the relatively small increase in new marriages that are the backbone of this demand.

Low-income housing.--Construction was started on about 33,000 public housing units for low-income families in 1964. At the end of the first 7 months of 1965 the number of units started was up about 34 percent over the same period in 1964. Most of these units are apartments in metropolitan areas.

Most newly built one-family houses are out of reach as far as the low-income population is concerned. In the 4th quarter of 1964 only 11 percent of new one-family homes had sales prices below \$12,500. The proportion in this price range was as low as 3 percent in the Northeast and West and as high as 20 percent in the South.

The low-income family may achieve homeownership by purchasing a mobile home rather than one of conventional construction. Annual production of mobile homes has increased sharply since 1962. In 1964 shipments of mobile homes totaled almost 200,000. In the first 6 months of 1965 production was at about the same level as in 1964. Of course, not all mobile homes are for low-income families. Trends toward longer, wider, more luxuriously furnished and equipped models suggest that the mobile home industry is edging away from the low-income market.

New building materials and methods

The major new developments in building materials and methods have been improvements in plastic and metal materials, adhesives, and components that

are pre-assembled and pre-finished at the factory. Some of the items listed in this section have appeared in experimental houses such as those built for the New York World's Fair. Others have been available for years to owners of the most expensive custom-built houses but new ways of production make them feasible for the mass market.

The consumer who is building, remodeling, or refurbishing a house needs some knowledge of new developments in order to deal intelligently with professional builders and suppliers. The list given below suggests a variety of new products and materials that might be investigated before making decisions.

Exterior wall finishes

- . Drop siding of plastic coated hardboard or gypsum board that does not have to be painted.
- . Drop siding and shutters of solid vinyl in colors that permeate the material.
- . Aluminum siding with a textured or embossed finish.
- . Wall panels of steel finished with an acrylic, lined with gypsum board and insulated with glass fiber and bolted in place on site.
- . Plywood siding that has been circular-sawed to produce an interesting texture.

Roofs and gutters

- . For roofs of unusual contour, a compound that is sprayed, painted, or rolled on and dries to a water-proof, weather-resistant film.
- . Roofing of laminated plastic rolled on over an adhesive. The lapped seams are covered with pressure sensitive tape.
- . Asphalt shingles with an adhesive edge applied at the factory. When fastened in place, the sun helps to set the adhesive so the shingles become wind and water tight even on roofs with flat slopes.
- . Gutters of solid vinyl that require no painting or of steel with a galvanized finish that holds paint better than it used to.

Doors

- . Prefinished metal skin over core of honeycomb type fiber that deadens sound.
- . Wood styles and casing for glass sliding doors.
- . Wood veneer for folding doors and partitions.

Windows and screens

- . Windows that resemble double-hung type but may be rotated for easier cleaning of the outside glass.
- . Vinyl as a liner for window jambs.

Interior wall finishes

- . Wallboard with factory-applied finishes that resemble fabric or wood.
- . Transparent vinyl as a protective film for real fabrics used as wall coverings.
- . Mosaic tile in the form of wallpaper that can be rolled on over an adhesive applied to the wall.

Flooring

- . Synthetic flooring materials that resemble the color and texture of natural materials such as flagstone and cobblestone, and a wood-grained pattern that comes in plank-like strips.
- . Mosaic tiles set in rubber or vinyl squares. They appear to be set in grout but are more easily cleaned and resilient than those set in grout.
- . Pulverized marble ("cultured marble") in a synthetic binder in tiles that may also be used on counter tops or walls.
- . Epoxy liquid flooring applied over almost any surface. It dries to withstand traffic in a day and has no seams or cracks.
- . Laminated oak blocks in prefinished 9-inch squares.
- . Cork flooring with a transparent vinyl surface.

Ceilings

- . Accoustical panels in a wide range of designs and textures.
- . Better designed translucent panels that conceal lighting units.

Bathrooms

- . One-piece tub and surrounding wall unit of glass fiber.
- . A self-ventilating toilet.

- . A bathtub with a textured surface to give a firm footing.
- . Gadgets to provide hydrotherapy or a steam bath at home.

Heating

- . Air pumps (that warm or cool the air as the outside temperature requires) appear ready for use where the climate is quite severe.

Radiant heating for installation in ceilings consists of flexible outer layers of vinyl fabric over a center section of a mesh of resistance wiring. It is applied as a wallpaper over an adhesive and connected to the wiring system. A thin coat of plaster may be sprayed or trowelled on the vinyl surface.

Electronic gadgetry

- . Automatic control of lighting (turning exterior and interior lights on at dusk and off in the morning).
- . Automatic pulling of curtains at night and morning.
- . Automatic sounding of alarm when light beam is interrupted.
- . Automatic lawn sprinkling.
- . Automatic recording of telephone messages.
- . Monitoring the nursery by closed circuit television.
- . Thermostats that not only activate the heating or air conditioning but sound a fire alarm when there is overheating.
- . Humidistats that activate equipment when air becomes too dry or too moist.
- . Electrostatic air cleaning.

Miscellaneous

- . Use of glass fiber ducts for air conditioning and heating systems to aid in sound conditioning.
- . More emphasis on central vacuum cleaning systems.
- . More emphasis on exterior electrical outlets and exterior lighting to highlight landscaping or architectural features and as a safety feature.

- More control of lighting, e.g. changing the intensity of the lighting in a room and control of all lighting from central switches.
- More emphasis on underground utility lines especially in new subdivisions.
- More use of spraying techniques for applying concrete, plaster, and insulation.
- Development of digging and grading equipment for the small builder.

Outlook

Total demand for housing units is not expected to increase until 1967-68 when the bumper crop of babies born just after World War II will be marrying and looking for housing. The national supply of housing is expected to be adequate even though levels of new construction for the next couple of years remain about what they have been in 1965. There may be local shortages near military installations if more married men are called into service.

Over the past twenty years consumers have spent an increasing part of their annual consumption expenditures on housing. Consumer income will probably continue to climb and consumers will continue to spend heavily on housing to satisfy needs that are as much social as physical.

Mortgage money is expected to remain abundant but home buyers may have to pay a somewhat higher rate of interest and make relatively larger downpayments than have been required in the recent past.

As far as new housing is concerned the building industry seems set to offer "more house," i.e. more space, more amenities for the same or generally higher prices. Producer and consumer alike are caught in an upward spiral that converts today's luxuries to tomorrow's necessities. Families who are not on the rising plane of income because of age or some handicap will continue to be priced out of a housing market in which standards and prices are continually rising. The Housing Act of 1965 ^{3/} may bring them some relief.

^{3/} See The Housing Act of 1965, Ralph Turner, paper presented at Annual Agr. Outlook Conf., Wash., D.C., Nov. 1965.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

FAMILY EXPENDITURES FOR MEDICAL CARE

Talk by Jean L. Pennock
Consumer and Food Economics Research Division
at the 43rd Annual Outlook Conference
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From time to time data on medical care expenditures have been presented at these Outlook sessions and they have been received with considerable interest. This year, when we are about to begin a new phase in the provision of medical care--health insurance for the aged as part of the social security program--it seems pertinent to look again at family spending in this field.

The 1960-61 Survey of Consumer Expenditures, undertaken cooperatively by the USDA and the Bureau of Labor Statistics of the Department of Labor, contains a wealth of information about the expenditures of American families for medical care and the value of the care they received without direct expense. I am presenting the highlights in this paper. They give us a look backward over the recent past. This is the picture as we approach the new program.

The pattern of all U.S. families

In 1961, U.S. families^{1/} reported that 7 percent of their total expenditures for current consumption went for medical care. Virtually all families--98 percent--reported some expenditure, the average amount being \$345 (table 1).

The major part of this amount was spent to pay for health services or goods already received, but about a fourth--\$91--was used to buy health insurance. Almost three-fourths of all families paid for some protection of this kind in forms ranging from major medical coverage and the relatively complete care provided by some medical groups to hospitalization insurance and insurance for specified risks such as polio or accidents to school children.

Of the \$254 used for direct expenses, about a fifth--\$49--was spent for care in hospitals. This amount includes not only the services provided by hospitals but the services of physicians and surgeons. One fourth of all families spent something on one or more illnesses or accidents requiring hospitalization and the average bill they paid was \$200. This amount includes the total cost of care in hospitals when families had no insurance, and the part for which they were liable when insurance did not cover the costs in full.

^{1/} In this paper, the term "family" includes financially independent single individuals.

The bulk of direct expenditures--\$205--went for care not involving hospitalization. Medicines and drugs comprised the largest single item in this total--\$68. Physicians' care outside of hospitals took \$55, dental care \$47, and eye tests and glasses \$16.

Almost all families--97 percent--reported some direct expenditure and 9 out of 10 had some expenditure for medicines and drugs. Three-fourths had bills for physicians' services outside of hospitals. Dental care was bought by slightly more than half of all families and eye care by less than two-fifths.

In interpreting these data we must bear in mind that an expenditure by a family does not necessarily cover every person in that family. Although more than half of all families had some expenditure for dental care, for example, we can be sure that considerably less than half of all individuals saw a dentist.

In addition to the care they paid for, either directly or through insurance, almost a fourth of all families received care for which they did not pay. This free care, valued at \$34 per family, includes services furnished on the basis of need by public and private agencies or on the basis of legal entitlement--as in the case of veterans or on-the-job accidents, and services paid for by others either as a gift or because of legal responsibility in the case of accidents. Free care also includes health insurance premiums paid in whole or in part by employers.

It is obvious that families who have paid a bill are better able to report dollar values than families who have received free care. While some families may overestimate the value of free care, we think, on balance, that the figures reported are too low.

Rural-urban differences

While data on the spending of all families in the United States are of interest, for many purposes data on selected groups are more useful. One of the groupings in which many of us have an interest is in relation to residence on farms, in rural areas but not on farms, or in urban areas.

In 1961 spending for medical care was highest in urban areas, averaging \$362 per family, and lowest in rural nonfarm areas, where the average was \$297. Spending of farm families was close to that of nonfarm families, averaging \$310 (chart 1).

Differences in family size between the three groups should be taken into account in comparing their expenditures. Urban families, the highest spenders, were the smallest, averaging three-fourths of a person less than farm families who were the largest. As a result of these differences urban spending per capita was almost half again as large as farm spending although on a per family basis urban families spent only a fifth more. Rural nonfarm families were

one-third of a person smaller than farm families. Consequently, rural nonfarm spending was slightly higher than farm spending on a per capita basis, although slightly lower per family.

The relative spending positions of the three groups on a per family basis--urban high and rural nonfarm low--is not in line with the relative income positions of the three groups. Farm families had slightly lower average incomes than rural nonfarm families--\$4,424 compared to \$4,700 on an after-tax basis. Farm families put a larger proportion of their total expenditures for current consumption into medical care than did the other two groups--9 percent as compared with 7 percent by both urban and rural nonfarm.

The difference in the spending of farm and rural nonfarm families is concentrated in the area of direct payments for hospitalized illness and accidents. Farm families spent an average of \$57 compared to \$43 spent by rural nonfarm families. A somewhat larger proportion of farm than rural nonfarm families--28 as compared to 25 percent--had expenditures for in-hospital care and the average payment per family spending was considerably larger--\$204 as compared with \$170.

These data cannot be interpreted to mean that farm families have more hospitalized illness than rural nonfarm families although this may be the case. To draw conclusions on the amount of in-hospital care received, it would be necessary to know also about in-hospital care covered by health insurance. Our data indicate that a somewhat smaller proportion of farm families than of nonfarm families paid for some health insurance--63 as compared with 66 percent. We can assume also that more rural nonfarm than farm families had some or all of their health insurance premiums paid by employers. This being so, it follows that rural nonfarm families had more insurance than farm families although they spent the same amount. Supporting these assumptions is the fact that fewer farm than rural nonfarm families reported receiving free care--only 13 percent as compared with 22 percent.

About three-fourths of all farm and rural nonfarm families reported some expenditure for physicians' care in the home, office, or clinic. Slightly more than half had dental expenditures and slightly more than a third expenditures for eye care. Nine out of 10 bought medicines and drugs. In each major area except medicines and drugs, the proportion of families spending was a few percentage points higher for farm families. Average expenditures of the two groups were very similar, the greatest difference being that farm families spent about 10 percent less than nonfarm families for medicines and drugs.

Although urban families spent more for medical care than rural nonfarm families, they both divided their medical dollar in much the same way. Urban families spent a slightly smaller proportion on insurance even though a larger proportion of families paid for insurance. It is likely that a larger proportion also had a part or all of their premiums paid by their employers. Urban

families spent somewhat more heavily on dental care than rural families--15 percent of their total expenditures as compared to 10 percent by rural non-farm families--partly because a slightly larger proportion of families had dental expenditures. Balancing this, urban families put a slightly smaller proportion of total medical expenditures into medicines and drugs.

Differences associated with income level

As the economic level of families rose, their expenditures for medical care also increased (table 2). Families with incomes below \$1,000 spent \$126, on the average; families with incomes of \$15,000 and over spent \$884. This is a sevenfold increase.

Per capita expenditures do not show as great a gain over the income range as family expenditures because families with high incomes tend to be larger than those at the bottom of the income scale. Nevertheless, when the difference in family size is taken into account, the gain over the income range is almost threefold.

Impressive as these increases in expenditures may appear, they were somewhat smaller than increases in the sum of other expenditures for current consumption. As a result, medical care took a smaller proportion of the family budget at high than at low income levels. The range was from 10 to 6 percent.

Within the three segments of the population--urban, rural nonfarm, and farm--there can be seen a somewhat similar change in the level of medical expenditures as the level of income changed. Except at the highest income levels, the urban and rural nonfarm groups responded at much the same rate to change in the level of income (and possibly the difference at top income levels is a chance fluctuation resulting from relatively small numbers of cases). Farm families, however, showed less response than urban and rural nonfarm families to change in income level (chart 2). At the bottom of the income range farm families spent almost three-fourths again as much for medical care as urban families but at the top of the range they spent only two-thirds as much.

The explanation of this difference does not lie in a difference in the reactions of farm and urban families to economic level. Rather, the explanation is to be found in the shortcomings of income as a measure of economic level. In reality income level is only a part of economic level and we use it as an indication of economic level in surveys such as this because we cannot get a measure of the whole complex that makes up economic level. A family's economic position and its ability and willingness to buy the various goods and services available to it are determined not only by the income it receives in the survey year, but by the sum of its resources--its net worth--and its future

prospects. Families generally are little influenced by year-to-year variations in their income level. Instead they tend to set their spending by their long-term economic level.

Consequently classification by annual income puts into the low-income group the true poor, who are indeed living in poverty, and those who have had a bad year but who are living at their usual level through the use of savings and credit. At the same time, it puts into the upper income group not only the true rich but some who have had an unusually good year. Year-to-year variation in income is more frequent among farm families than among those who are dependent on wages and salaries. Consequently among farm families there is greater disparity between position on the income scale and position on the economic scale. To a greater extent than among nonfarm families, those displaced from their usual position raise the level of spending at the bottom of the income scale and lower it at the top.

Not only the level but the pattern of spending varied with income level.

Health insurance took more than 25 percent of all medical expenditures in the range of income between \$2,000 and \$15,000. Above and below this range the proportion was less than 20 percent. Expenditures on illnesses and accidents requiring hospitalization tended to be of decreasing importance, the higher the income. This item took 23 percent of total medical expenditures at incomes of \$1,000-\$2,000, but only 10 percent at incomes of \$7,500-\$15,000. Taken in conjunction with the peaking of the value of free care in the middle income range, we have a picture of increasing use of hospitals at middle and higher levels financed in greater part through health insurance and in decreasing part by direct payment.

Dental services took a sharply increasing percentage of total medical expenditures at higher income levels, varying from 4 percent among families with incomes under \$1,000 to 23 percent among families with incomes of \$15,000 and more. Medicines and drugs, on the other hand, decreased in importance, falling from 30 percent of the total at the bottom of the range to 12 percent at the top. Eye care was the only major item maintaining a constant position at all income levels. It took 4 to 5 percent of the total.

Turning from expenditures to free care, we find that the distribution of the latter over the income range was less regular than the distribution of medical expenses. A peak of \$42 was reached at the \$1,000-\$2,000 income level, followed by a decline and another lesser rise above the \$6,000 income level. The proportion of families reporting free care rose more or less regularly to the top income class and then declined sharply.

The high value of free care at low income levels is probably accounted for in large part by the receipt of services by families who could not pay--the usual concept of free care. The later high level of free care is undoubtedly made up largely of health insurance premiums paid by employers.

Variation among Regions

Ranked in order by spending for medical care, we find the West leading, followed by the Northeast, North Central, and South. The range in spending by region was from \$409 to \$302 per family (table 3).

Ranked by the value of free care, the West also led, followed in order by the North Central, South, and Northeast. Average values ranged from \$46 to \$28 per family.

Average values for the regions were largely determined by the urban values since in each region urban families constitute the preponderance of the population. The region in which rural families carried the greatest weight was the South, and even there they were only 38 percent of the population. Farm families had their greatest weight in the South and North Central, constituting 10 and 9 percent of the population respectively in those regions. In the Northeast they were only 2 percent.

In each region average expenditures of rural nonfarm families were about 15 percent smaller than those of urban families. There was no such consistent relation between the expenditures of farm and nonfarm families. Neither does a pattern emerge around the value of free services.

Changes in expenditures over time

This survey and a similar nationwide survey made in 1941 give us an opportunity to assess the changes that have occurred in spending for medical care over a 20-year period. This period spans a generation in which we went through World War II and into the era of cold war. The surveys reflect very different economic climates. In 1941 we were just recovering from the great depression whereas 1961 was preceded by a decade of prosperity.

Over this period there has been a truly sizeable change in the level of expenditures. The 1961 average expenditure of \$345 that I quoted earlier compares with \$79 in 1941 ^{2/} (table 4).

Looking first at these figures as part of the total picture of family spending, we find medical care to be more important in family budgets in 1961 than in 1941. Over the period the share of total spending taken by medical care rose from 5 to 7 percent.

We have heard so much about price increases and particularly about increase in medical care prices, that we may expect the price change to account for much of the change that has taken place. It does indeed account for 42 percent of the difference in family expenditures for medical care leaving 58 percent to be

^{2/} Family Spending and Saving in Wartime. United States Department of Labor Bulletin 822. 1945. Adjustment has been made for comparability of data.

attributed to other causes.^{3/} If the price rise has had less effect than recent comments on soaring medical costs have led us to expect, we should recall that in the first part of this 20-year period the prices of services, including medical care services, rose less rapidly than the prices of commodities. Only since 1955 has the price of medical care led the rise of the various components in the Consumer Price Index.

If price change, that ever-present whipping boy, does not explain all the change in expenditures for medical care, what does? Obviously the change in the level of real income is of primary importance since a rise in the level of real income reduces the competition of the primary necessities, particularly food, for a major share of total spending. According to estimates of the Department of Commerce, real income per family rose 31 percent over the 20-year period.^{4/}

Other factors contributing to the rising level of medical care expenditures are the recent improvements in the level of medical care available to families and the growing realization by families that they stand to gain by buying medical care. Medical science has made better care available to us. The medical profession and many related groups have urged us to use the facilities available to us and we are increasingly realizing the advantage to us in buying care of this kind.

Now let me turn from a consideration of why we are spending more to the change in our pattern of spending.

The outstanding change has been in spending for health insurance. From an average of \$3 per family in 1941, it has risen to \$91 in 1961. Both the proportion of families paying premiums and the size of the average premium have increased--the proportion of families paying from 14 to 72 percent, and the size of the average premium from \$20 to \$126. In 1941 health insurance was almost completely limited to coverage of hospital expenses. By 1961 surgical benefits and major medical insurance were also important.^{5/}

Even though families are now paying through insurance for care they formerly paid for directly, direct payments in 1961 were more than three times as great as in 1941--\$254 as compared to \$76. In terms of constant dollars there has been a 50 percent increase.

^{3/} As measured by the Consumer Price Index of the Bureau of Labor Statistics.

^{4/} U.S. Income and Output, a Supplement to the Survey of Current Business, 1958 and Survey of Current Business, July 1964.

^{5/} Because of this change in the types of insurance bought by families and the fact that health insurance was not included in the Consumer Price Index until 1951, expenditures for health insurance have not been expressed in constant dollars in table 4.

Increasing dependence on insurance as a way of paying for hospital care and physicians' services makes comparison of expenditures over time on these two items of little meaning. However, table 4 includes data on expenditures for three categories not materially affected by health insurance--dental care, eye care and medicines. Even in these categories, the increased dependence on health insurance results in some understatement of the change in the level of expenditures. This understatement is least for dental care, since insurance for dental care is just emerging from the experimental stage and in 1961 was available in only a very few areas. The understatement is probably greatest for drugs since some coverage for drugs is almost always included in major medical insurance although at a level that, in any one year, prevents most families from recovering what they have spent. Eye care is less frequently covered than drugs.

Even though the greatest understatement of change occurs in expenditures for drugs, this item has shown the greatest increase over the years. In 1941 we weren't using any of those costly but efficient medicines, the antibiotics, because they had not been developed as yet. In this connection we need to be reminded from time to time that although we may be spending much more on drugs and although possibly some drugs may be overpriced, the prices of drugs have risen much less than other prices. The same list of drugs, priced over the years, has remained remarkably stable (chart 3). Our higher expenditures result from the change in drugs we are buying--from aspirin to antibiotics, to overstate the case alliteratively.

Dental care also took more in 1961 than in 1941, increasing 213 percent in current dollars and 40 percent in constant dollars. Eye care increased 129 percent in current dollars but remained at the same level in constant dollars. In both of these items, the increase in expenditures are in part attributable to use by a larger proportion of families, and this is heartening. In 1961, 57 percent of families had expenditures for dental care as contrasted with 47 percent in 1941.

Now, having talked about the change in health insurance coverage and said a little about its effect on other medical expenditures, I would like to go back and add increasing dependence on health insurance to meet our medical expenses, to the list of factors explaining the change in the level of expenditures. When we can budget for an expense, setting aside a known amount quarterly, monthly, or every pay day, we can pay out larger amounts with less strain than when we are faced with varying demands unexpectedly and at irregular intervals.

Conclusion and Outlook

I began by saying that the picture of family spending in 1961 could give us a vantage point from which to look into the future. I would like to close by pointing out that there will be no sharp break with the past under the new programs instituted by the recent amendment to the Social Security Act.

The 1961 picture was one of increasing dependence on insurance. Moreover, a significant part of that insurance was not paid for by the family but was obtained as a fringe benefit of employment. Even in middle- and upper-income classes as many as 25 percent of all families were dependent on sources outside the family for part of their medical care. Under the new program we can expect an increase in the proportion of low-income families to be covered by insurance. This is the group in which coverage is now low and need for protection is the greatest.

Currently medical care weighs most heavily on low-income groups. Medical care takes a larger part of their budget than among families higher on the income scale. Many of these low-income families are aged. The new programs should lighten the burden of medical care costs for them so that in this respect their situation will be more like that of other families.

Table 1. Average expenditures for medical care and amounts received without expenditure, proportion of families making expenditures and proportion reporting free care, by urbanization, 1961

Item	Total		Urban		Rural nonfarm		Rural farm	
	Amount	Percent reporting	Amount	Percent reporting	Amount	Percent reporting	Amount	Percent reporting
Total expenditure -----	\$345	98	\$362	98	\$297	98	\$310	98
Prepaid care -----	91	72	94	75	83	66	83	63
Total direct expenditure -	254	97	268	97	215	96	226	97
For hospitalized illness	49	24	50	24	43	25	57	28
Physicians' services								
outside hospitals -----	55	75	58	75	47	76	48	78
Dental services -----	47	57	53	58	32	52	31	55
Eye care <u>1/</u> -----	16	37	17	38	15	34	16	37
Other practitioners -----	3	5	3	5	2	5	4	8
Medicines and drugs -----	68	91	69	91	66	91	59	91
Medical appliances -----	4	34	4	35	3	33	4	32
Other medical care <u>2/</u> --	8	20	9	21	5	16	7	14
Free care -----	34	24	36	25	30	22	22	13
Number of families (000) ---	55,306		40,131		11,663		3,512	

Note: Preliminary data. Detail may not add to total because of rounding.

1/ Includes glasses.

2/ Includes nursing care in the home.

Table 2.--Average expenditures for medical care and amounts received without expenditure, proportion of families making expenditures and proportion reporting free care, by income after taxes, 1961

Item	Total	Under \$1,000	\$1,000- 1,999	\$2,000- 2,999	\$3,000- 3,999	\$4,000- 4,999	\$5,000- 5,999	\$6,000- 7,499	\$7,500- 9,999	\$10,000- 14,999	\$15,000 and over
				Average value							
Total expenditure.....	345	126	162	230	272	298	346	399	475	589	884
Prepaid care.....	91	21	30	59	76	85	98	113	126	151	178
Total direct expenditure.....	254	105	131	171	197	213	248	286	349	438	706
For hospitalized illness.....	49	26	37	46	50	52	48	46	49	58	141
Physicians' services outside hospitals.....	55	20	28	36	40	47	59	64	76	97	141
Dental services.....	47	6	9	18	23	28	39	58	87	118	202
Eye care <u>1</u> /.....	16	6	7	10	11	13	18	19	25	29	39
Other practitioners.....	3	2	1	2	2	2	3	3	4	4	1
Medicines and drugs.....	68	38	42	52	59	58	69	79	90	96	108
Medical appliances.....	4	4	3	3	5	3	3	4	6	6	9
Other medical care <u>2</u> /.....	8	2	3	3	6	9	8	8	9	18	45
Free care.....	34	28	42	30	31	29	34	39	32	38	33
			Percent of families reporting								
Total expenditure.....	98	86	91	97	98	100	99	100	100	100	100
Prepaid care.....	72	25	37	58	68	77	82	84	88	89	86
Total direct expenditure.....	97	85	89	94	96	99	99	99	100	99	99
For hospitalized illness.....	24	11	12	20	26	27	27	27	28	26	33
Physicians' services outside hospitals.....	75	51	56	67	71	78	83	84	84	81	82
Dental services.....	57	16	20	33	46	55	65	72	81	83	87
Eye care <u>1</u> /.....	37	20	20	26	29	34	42	40	50	55	58
Other practitioners.....	5	2	3	5	4	5	5	7	6	6	2
Medicines and drugs.....	91	74	81	87	89	94	95	96	96	96	88
Medical appliances.....	34	12	16	21	30	36	42	39	47	48	41
Other medical care <u>2</u> /.....	20	6	9	11	18	19	20	25	25	28	33
Free care.....	24	18	20	17	20	25	25	28	28	31	21
			Distribution of families								
Percent of families.....	100	4	10	11	11	13	13	15	14	7	2

Note: Preliminary data. Detail may not add to totals because of rounding.

1/ Includes glasses.2/ Includes nursing care in the home.

Table 3.--Average expenditures for medical care and amounts received without direct expenditure, by region and urbanization, 1961

Item	Northeast				North Central			
	Total	Urban	Rural nonfarm	Rural farm	Total	Urban	Rural nonfarm	Rural farm
Expenditure for medical care -----(dollars)	370	379	329	295	333	346	288	333
Value of free care -----do----	28	30	19	40	37	42	27	15
Distribution of families -----(percent)	100	82	16	2	100	71	21	9
	South				West			
	Total	Urban	Rural nonfarm	Rural farm	Total	Urban	Rural nonfarm	Rural farm
Expenditure for medical care -----(dollars)	302	322	270	271	409	420	353	413
Value of free care -----do----	29	29	31	28	46	47	46	11
Distribution of families -----(percent)	100	62	28	10	100	79	17	4

Note: Detail may not add to totals because of rounding.

Table 4. Average expenditures per family for all medical care and selected components, in current and constant dollars, United States, 1941 and 1961

Item	1941 ^{1/}		1961 ^{2/}	
	in 1941 dollars	in 1957-59 dollars ^{3/}	in 1961 dollars	in 1957-59 dollars ^{3/}
Total medical care expenditures	\$79	\$156	\$345	\$310
Health insurance -----	3	--	91	--
Direct expenditures -----	76	150	254	228
Dental care -----	15	30	47	42
Eye tests and glasses -----	7	14	16	14
Medicines and drugs -----	12	24	68	61

^{1/} Survey of Family Spending and Saving in Wartime, cited in Hollingsworth, H., and M. C. Klem, Medical Care and Costs in Relation to Family Income. Federal Security Agency, Social Security Administration, Bureau of Research and Statistics, Memorandum No. 51. Washington, D.C., 1947. Adjustment has been made for comparability with the 1961 data.

^{2/} Preliminary unpublished data from the 1960-61 Survey of Consumer Expenditures.

^{3/} Adjusted by the Consumer Price Index.

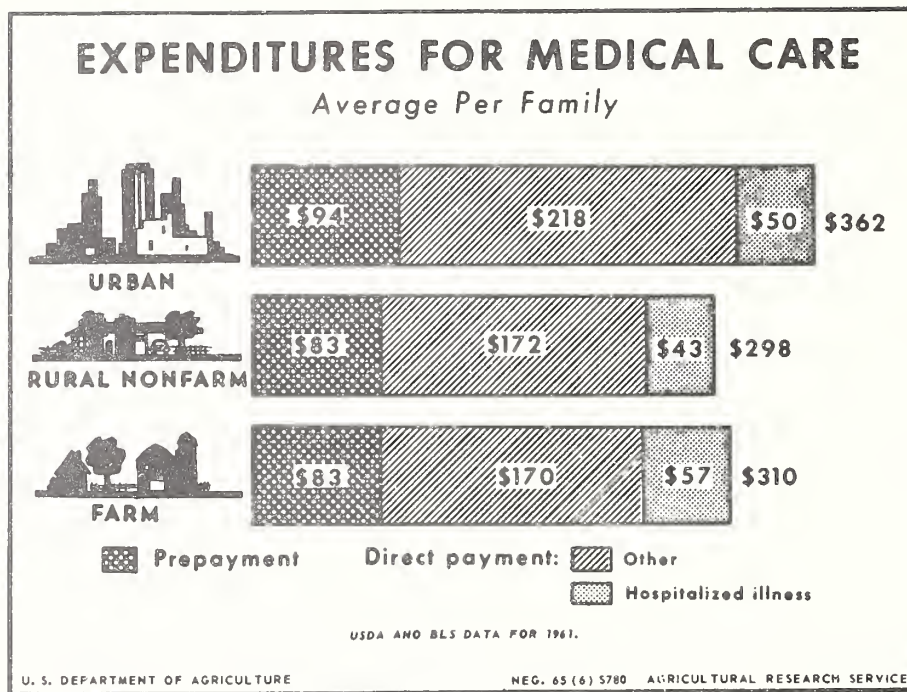


CHART 1

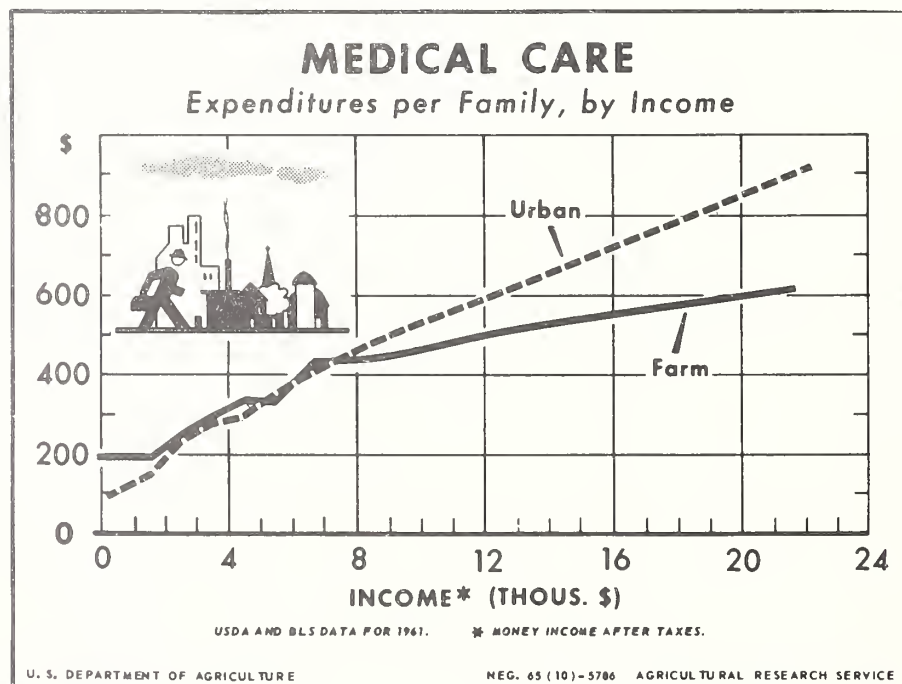


CHART 2

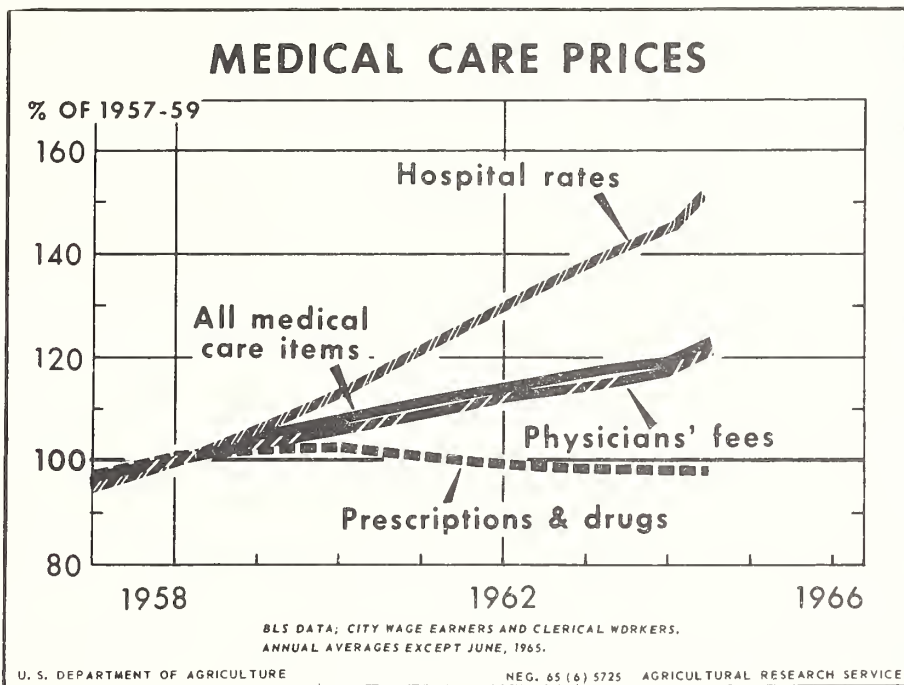


CHART 3

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

THE OUTLOOK FOR FRUITS AND TREE NUTS IN 1966

Talk by Ben H. Pubols

Economic and Statistical Analysis Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 2:45 P.M., Wednesday, November 17, 1965

General Supply and Demand Prospects

Total supplies of fruit from this fall to mid-1966 may not vary greatly from the large volume in the same period of 1964-65. However, prospective supplies of some broad groups of fruit differ significantly from last year. Expected supplies of fresh and processed citrus are up moderately and those of processed deciduous fruits are down moderately. Remaining supplies of fresh deciduous fruits may be about as large as a year ago. Total supplies of edible tree nuts, including imports, may be up somewhat.

Over the next few years, deciduous fruit production is expected to trend upward about in line with population growth. But citrus output probably will more than match population growth, assuming favorable weather.

In the year ahead, consumer demand for fruit is expected to expand further, mainly because of population growth and income gain.

Export Outlook

In 1965-66, increased U. S. exports of fresh oranges, grapefruit, and lemons to Canada, and of grapefruit and lemons to Western Europe, are expected. Gains in exports of processed citrus juices to both areas also are expected in view of the prospective larger U. S. supplies at attractive prices. Prospects are good for increased exports of pears to Canada and Western Europe, where crops are lighter this year. Any gains in apple exports to Europe, where the crop is down, are likely to be partially offset by losses to Canada, where the crop is up.

Prospects are bright for increased exports of raisins because of heavier U. S. supplies, and of dried prunes because of below-average production in some of the foreign-producing countries. But decreased exports are expected for canned fruit because of the reduced supply and firm price position of U. S. canned peaches and fruit cocktail, the usual leaders in canned fruit exports.

Citrus Fruit

Early-season prospects for the 1965-66 U. S. citrus crop point to production moderately larger than in 1964-65 and substantially above 1963-64,

the low point following the freeze of nearly 3 years ago. Production can be expected to trend strongly upward over the next few years, assuming favorable weather. Within the next 2 years, it could reach--even exceed--the pre-freeze record volume of 1961-62.

For the next few years, the growth rate for citrus production is expected to be greater than that for population expansion. The many young citrus trees not yet bearing and the older trees still increasing in bearing capacity constitute the potential for further increases in production. Florida oranges are expected to account for most of the gains.

The 1965-66 U. S. crop of early, midseason, and Navel oranges is expected to be moderately above the 1964-65 crop. The first forecast for the new crop (made as of October 1) points to 66.9 million boxes, 6 percent above 1964-65 and 12 percent above the 1959-63 average. Production is expected to be up in all principal citrus States. Florida, with 47.3 million boxes, accounts for about 71 percent of the new crop. California, with 18 million boxes, accounts for 27 percent. Texas and Arizona make up the other 2 percent. These early-season forecasts assume average weather conditions for the rest of the season. So future weather conditions will have an important bearing on the final outturn of the crop.

Production prospects for Florida Valencia oranges appear more favorable than those for the early and midseason crop. That is, they point to a gain of more than a tenth over both last season and average. If the October 1 forecast for all Florida oranges materializes, the crop will total 91.3 million boxes, 6 percent above 1964-65 and 8 percent above average, but still 19 percent below the 1961-62 record of 113.4 million boxes. The first forecast of the California Valencia crop will be released December 10 in the crop report.

In Florida, prospective production of tangelos is up, that of tangerines down. The 1965-66 Florida lime crop was cut moderately below 1964-65 by Hurricane Betsy in early September.

The 1965-66 grapefruit crop (all U. S. except California late-season fruit) was estimated, as of October 1, at 42.5 million boxes, 8 percent above last season and 12 percent above average. Florida, the leader by far in grapefruit, accounts for most of the increase. In this State, expected production of pink and white seedless grapefruit (the kinds preferred for fresh use) is up moderately, while that of other (seeded) varieties is down. Prospective production also is up in Texas and Arizona, but down in California.

Harvest and fresh market shipment of 1965-66 crop Florida grapefruit and oranges started in September. Shipment of grapefruit increased rapidly in late September, became seasonally large by mid-October, and by early November was far ahead of the year-earlier movement, when harvest was delayed because of hurricane loss of early ripening fruit. Shipment of oranges has proceeded

more slowly to await better maturity of the fruit. Even so, weekly shipments by early November were fast approaching seasonally large volume.

Season-opening prices for Florida grapefruit and oranges at shipping points and on the principal auctions averaged somewhat below the fairly high year-earlier levels. In late October, prices averaged moderately to considerably lower than a year earlier.

Increased output of processed citrus fruits from the larger 1965-66 crop is expected. Most of the gain probably will occur in frozen orange concentrate. But increases also may be substantial in canned single-strength juices. Florida packers' stocks of principal frozen and canned items this fall are substantially larger than a year ago. So packers' supplies for the 1965-66 season also are expected to be up. But the lower current prices should stimulate movement into both domestic and export markets.

Deciduous Fruit

The 1966 crop of deciduous and other noncitrus fruits may not be greatly different from the large 1965 crop. But increases seem probable in some fruits, especially clingstone peaches, Bartlett pears, and cherries, which were down in 1965 because of unfavorable weather. On the other hand, decreases appear likely in other fruits, notably grapes, of which 1965 production was a record.

Over the next few years, total production of noncitrus fruits is expected to trend upward at about the same rate as population growth. Fruits expected to increase further include apples, peaches, and grapes, which together comprise the major part of the annual tonnage. A few other fruits also may increase noticeably. But several, especially pears and Pacific Northwest prunes, may not change greatly in level. Underlying the expectation of larger crops of some fruits are mainly increased plantings (generally of improved varieties) and better cultural methods.

The 1965 deciduous fruit crop was close to the 1964 record of 11.2 million tons and about a tenth above the 1959-63 average. Grape production was substantially above 1964; peaches, plums, cranberries, and apricots were about the same as last year; California dried prunes, apples and nectarines were down moderately; and strawberries, Pacific Northwest prunes, cherries, and pears were down substantially. The 1965 grape, fresh plum, and cranberry crops were record large, based on October 1 estimates. Grower prices for 1965 fruit crops varied around 1964 levels.

This year as always, substantial quantities of fresh apples, pears, and grapes have been placed in cold storage for sale during fall and after the turn of the year. At year end, stocks of apples in Eastern States may be larger than on January 1, 1965, while stocks in Western States may be smaller. Total stocks

of grapes probably will be up. Controlled atmosphere storage capacity is larger this year than last. In this type of cold storage, fruit, especially apples, may be held in good condition until late in the season, thus giving greater flexibility in marketing.

Because production of many of the fruits that are regularly processed in substantial volume was smaller this year than last, total output of processed deciduous fruits also is expected to be down. The 1965-66 U. S. Mainland pack (not yet completed) probably will be from 15 to 20 percent below the record 1964-65 pack. Reductions appear to be the heaviest for canned peaches, pears, fruit cocktail, and cherries. Probably about half of the decrease in the new pack will be offset by the sharp increase in packers' stocks at the start of the current season, to result in only a moderate drop in canned fruit supplies.

The 1965 U. S. pack of frozen deciduous fruits and berries (now nearing completion) also is expected to be down substantially from 1964, mainly due to lighter crops. Heavy reductions are indicated for red tart cherries and strawberries. But much of the reduction in total output will be offset by increased stocks at the start of the season last spring.

Dried fruit production in 1965-66 is expected to be moderately larger than in 1964-65 because of a substantial increase in raisins. Dried prune output is down a little.

Edible Tree Nuts

The 1965 crop of almonds, filberts, pecans, and walnuts was moderately larger than the above-average 1964 crop because of a sharp increase in pecans. The 1965 almond crop was a little below last year and the walnut and filbert crops were down moderately. Price prospects for the 1965 crops compared with 1964 are largely unchanged for almonds, up somewhat for walnuts and filberts, but down for pecans.

Some increase in U. S. exports of pecans appears likely in 1965-66. U. S. imports of cashews may not be greatly different from 1964-65, but those of Brazil nuts probably will be down.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR DAIRY PRODUCTS IN 1966

Statement by A. G. Mathis
Economic and Statistical Analysis Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 9:15 A. M., Wednesday, November 17, 1965

Dairy farmers' prospects for 1966 look a little better than 1965 on all fronts -- slightly higher marketings, moderate gains in commercial demand, surplus held at 1965 levels, prices rising slightly, costs rising less than farm income from milk and cream sales.

The outlook for 1966 is for a slight rise in milk production to 126 billion pounds from this year's expected 125.5 billion, still below the 1964 record of 126.6 billion pounds. The 1965 decline is associated with more favorable prices in alternative farm enterprises, particularly in the live-stock sector. Prices of both beef cattle and hogs increased much more than the increase in milk prices. In addition, increased wage rates, improved employment opportunities, and real estate development near urban areas are encouraging farmers to leave dairying, especially where there are fewer farm alternatives than in the Midwest.

High livestock prices relative to milk prices encourage farmers to change from dairying to livestock production, particularly in the Midwest. This kind of a change apparently occurred this year. Milk production in January-September dropped 3.6 percent from a year earlier in the Corn Belt and 2.3 percent in the Northern Plains States, but gained or remained about the same in all other production regions.

Since 1953 the average number of milk cows has fallen every year, from 21.7 million to 15.5 million this year. However, the decline in cow numbers has been offset by increased production per cow, which has risen an average of 220 pounds annually since 1955. This year's gain is placed at about 220 pounds, sharply under the 1964 rise of 319 pounds above 1963 output, and production per cow likely will approximate 8,100 pounds. Next year it is likely to exceed 8,300 pounds.

Higher prices in 1965 are raising dairy farmers' cash receipts from milk and cream to another record high, despite slightly lower marketings of milk and cream from farms. Prices have been nearly 2 percent above last year, and dairy farm cash receipts from milk and cream likely will rise about $1\frac{1}{2}$ percent above last year's \$5.0 billion.

Farmers' prices for milk are expected to average about \$4.23 per 100 pounds, compared with \$4.16 in 1964. Returns from the sale of milkfat in

farm-separated cream are estimated at 59.5 cents per pound compared with 58.8 cents in 1964.

Price gains in 1965 are due to decreased total production, low carry-over from 1964, and higher support levels due to changed parity relationships. Another price increase in 1966 appears likely for two reasons: First, parity relationships suggest that the minimum support will be above this year's \$3.24 per 100 pounds for manufacturing milk and 59.4 cents per pound for milkfat. The exact levels will be announced by the Secretary sometime before April 1; secondly, domestic disappearance in commercial outlets during 1966 is expected to increase as much or more than marketings, and carryover from 1965 into 1966 will be less than the low levels of 1964.

Price rises have pushed 1965 farm income up about \$70 million to an expected \$5.1 billion. The price gain in 1966 may be as great as this year, and marketings of milk may rise a billion pounds. Therefore 1966 dairy cash receipts are expected to reach another record high.

Marketings are dropping slightly this year, while the movement of dairy products into commercial channels is rising an estimated 1.7 billion pounds from 1964, the largest gain since 1956. As a result, the amount of milk removed from the market by USDA programs this year is put at about 6.5 billion pounds, 16 percent less than last year, but still amounting to 5 percent of the milkfat and 10 percent of the solids-not-fat marketed.

This year's Food and Agriculture Act makes some provision for reducing this surplus. The new legislation amends the present provision in the Agricultural Marketing Agreement Act which authorizes the establishment of producer bases for seasonal adjustments in Federal order markets, and it clarifies the authority to set up orders for manufacturing milk orders. However, base plans or manufacturing milk orders will take considerable time for approval through the hearing and referendum procedures; therefore their impact on milk production is likely to be slight in 1966.

The legislation also authorizes the purchase of dairy products by CCC, at prices above support levels, to fulfill the needs of any domestic or foreign program.

Domestic demand for dairy products has been significant in this year's level of dairy prices. Total commercial disappearance has gained sharply, while farm marketings have dropped. This increase is due largely to population growth, but also partially to replacement of some CCC donations with open market purchases of dairy products for school lunch purposes. Use of CCC stocks in school lunch and welfare programs this year was limited by the relatively small cheese offerings to CCC and low butter stocks during the final quarter of 1964 and first quarter of 1965. Domestic donations in 1965

for school lunch and welfare distribution are estimated at 1.4 billion pounds milk equivalent below the 5.2 billion of 1964. Replacement of welfare programs by the Food Stamp plan probably contributed slightly to increased dairy sales.

Domestic consumption of dairy products -- military and civilian -- in 1965 is expected to total about the same as last year's 122.2 billion pounds milk equivalent, and a moderate increase is likely in 1966. However, per capita civilian consumption is expected to decline in both years; in 1965 to about 619 pounds from 628 pounds in 1964, and in 1966 to about 615 pounds. The drop is mostly in butter, cream, evaporated milk, and fluid whole milk. Per capita use of cheese, ice cream, condensed and dry whole milk, and non-fat dry milk is steady or rising.

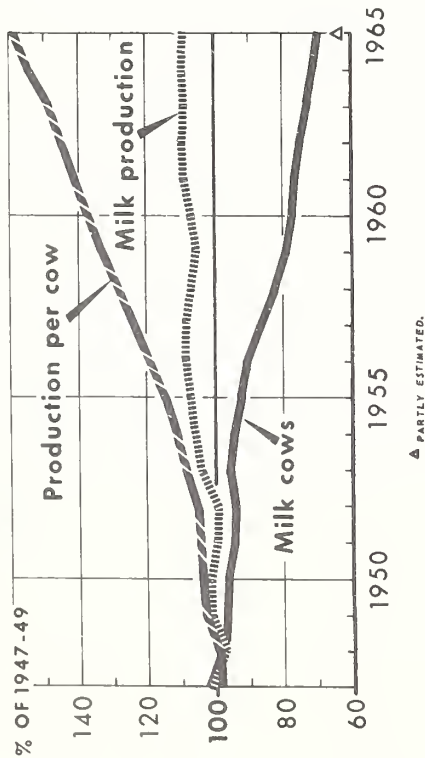
On a milk equivalent basis, 1965 fluid product consumption -- including use of home-produced milk on farms -- is falling to about 302 pounds from 305 pounds in 1964. However, use of low-fat milk is increasing and largely offsetting loss of whole milk and cream sales, so that 1965 total sales of fluid products, in terms of product pounds, are estimated between 1 and 2 percent higher than in 1964. However, per capita sales may average near the 314 pounds in 1964.

U. S. dairy product exports this year are about one-third below the record \$276 million in 1964 because of lower supplies and increased output in other countries. Butter, other high milkfat products, and nonfat dry milk account for most of the value. In 1966 the United States is expected to export substantially less than the 80 million pounds of butter in 1965 and 296 million in 1964. Most of 1965 butter exports were sold last fall and winter, when foreign supplies were low. Since then, sales have been small and foreign donations negligible. Nonfat dry milk exports in 1966 may increase above this year's 870 million pounds, but will be far below the 1,306 million pounds in 1964. Sales have declined, although Food-for-Peace shipments are being maintained.

Foreign sales in 1966, except for butter, are likely to be close to this year's levels, due to limited U. S. supplies of dairy products, large foreign supplies, and trade barriers -- such as quotas and variable levies -- in other countries that limit entry of U. S. products.

Imports, though still a small proportion of U. S. milk production, are estimated at 0.9 billion pounds milk equivalent this year, up from 0.8 billion in 1964. Next year, another 10 percent rise is likely. Excess supplies abroad, lower U. S. milk production and surplus in 1965, and U. S. prices above world levels are encouraging other countries to seek markets here for their dairy products.

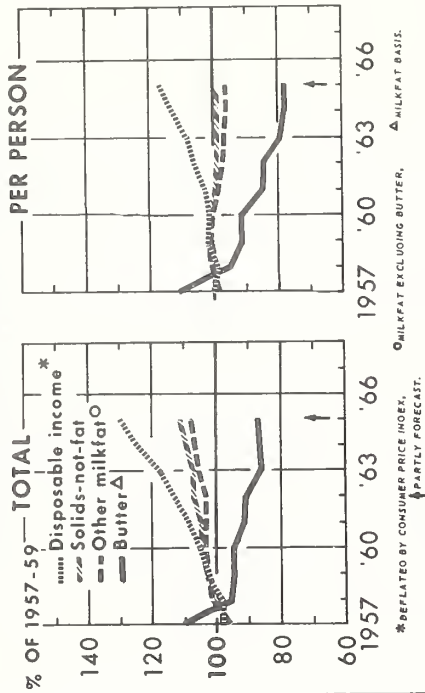
MILK PRODUCTION, COW NUMBERS, AND MILK PER COW



U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 2012-65 (8) ECONOMIC RESEARCH SERVICE

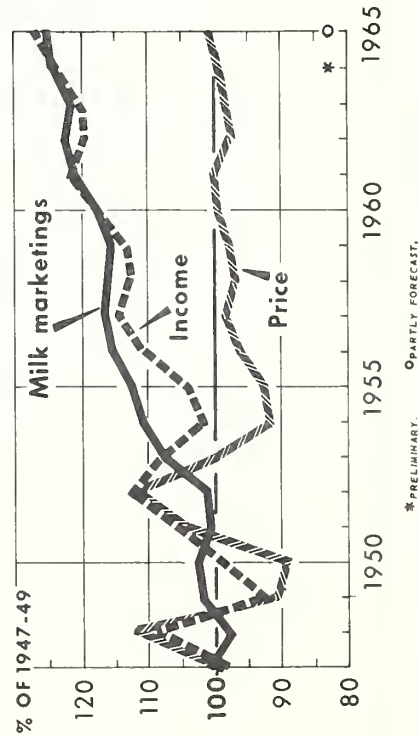
CONSUMPTION OF MILK SOLIDS AND DISPOSABLE INCOME



U. S. DEPARTMENT OF AGRICULTURE

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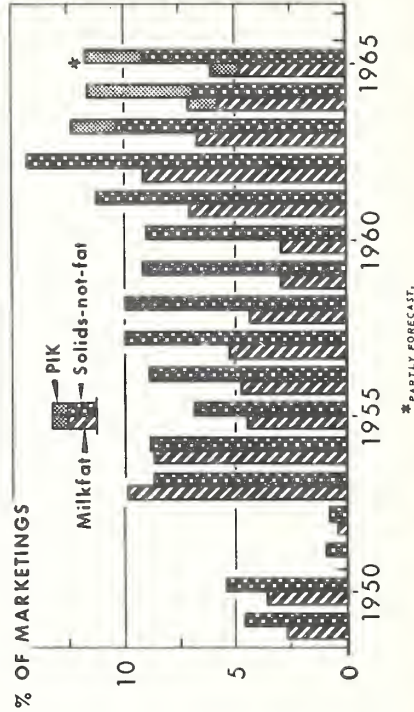
MILK MARKETINGS, PRICE, AND INCOME



U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 2013-65 (8) ECONOMIC RESEARCH SERVICE

CCC PURCHASES AND PIK EXPORTS OF MILK SOLIDS



U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 3025-65 (17) ECONOMIC RESEARCH SERVICE

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR RICE
In 1965-66

Statement prepared by William R. Askew
Economic and Statistical Analysis Division
for the 43rd Annual Agricultural Outlook Conference
Washington, D. C., Wednesday, November 17, 1965

The total supply of rice in 1965-66 is estimated at 83.4 million hundredweight, nearly 25 percent larger than the 1958-62 average and the largest since 1956-57. This large supply results entirely from the large 1965 crop, indicated in October at 75.5 million cwt. Yield per acre continued its uptrend in 1965, estimated at a new record of 4,237 pounds per acre. Beginning stocks at 7.7 million cwt. were at the reduced level of recent years with CCC holdings accounting for only a little over 1 million. Imports are expected to be lower in 1965-66 after rising to 0.5 million cwt. in 1964-65. The level of a year earlier was well above those of the previous 2 years and slightly above average. (All data are in terms of rough rice).

Disappearance of rice for food, seed and industry is expected to total near the large domestic disappearance of 31.0 million cwt. of last year. Use of rice for beer production increased slightly in 1964-65 but did not reach the 5-year average of 4.7 million cwt. Food use of rice last year was 24.3 million cwt., sharply above the 22.9 million of 1963-64. Food use includes shipments to U. S. Territories, principally to Puerto Rico, and purchases for military food use at home and abroad. Total domestic disappearance continues to increase resulting from increased use of rice for food.

Exports may exceed last year's record level, establishing a new record of over 43 million cwt. The expected increase in exports in 1965-66 could result entirely from heavier commercial sales. From August 1 through October 25, 1965, registrations for export subsidy totaled 9.4 million cwt. compared with 6.9 million during the same period in 1964. Registrations of commercial sales accounted for 62 percent of the total exports against 38 percent a year earlier. Exports have been increasing even more than domestic disappearance, with dollar exports rising sharply from the average of 12.5 million cwt. in 1958-62 to the 25.0 million in 1964-65. Japan was the major cash buyer in 1964-65, taking over 6 million cwt. Of the 17.5 million cwt. of rice shipped under P. L. 480, India was the major recipient, receiving over 10 million.

Based on the expected total disappearance this year of about 74.5 million, the carryover of rice on July 31, 1966, may be around 9 million cwt. This would be slightly above the ending stocks of the last 4 years.

The national average price-support loan rate for 1965-crop rice is \$4.50 per cwt., 21 cents below the loan rate applicable to the preceding 4 crops. The season-average price received by farmers during 1965-66 is likely to be about the same relative to the loan as in recent years--20 to 30 cents per cwt. above the loan.

The Food and Agriculture Act of 1965 includes a program for rice designed to maintain income of rice growers and at the same time keep production in line with demand. This program continues provisions of the program in effect for the 1965 crop with one difference being that it includes an acreage diversion provision.

If the national acreage allotment of rice for 1966, 1967, 1968, or 1969 is less than for 1965 (1,818,638 acres), the Secretary of Agriculture must institute acreage diversion payments to maintain net income of rice growers. If it becomes necessary to reduce acreage below present levels, the Secretary of Agriculture may permit all or part of the diverted acreage on a farm to be devoted to the production of one or more specified minor crops, subject to certain conditions. Diversion payment rates on this acreage will be adjusted at a rate determined to be fair and reasonable. A 50-percent advance payment may be made prior to the determination of performance.

The value factors to be used in determining support prices for the classes and varieties of the 1966 and 1967 crops cannot be reduced below the 1965-program value factors. Upward adjustments are allowed but the differences between the value factors for the various varieties or groups of varieties cannot be greater than the differences in the factors for the 1965 crop. In effect, the various types and varieties of rice may not be supported below 1965-crop support prices and, if they are raised, the loan-differentials among them must be at the current spread.

The 1966 rice allotment is being continued at the 1.8-million-acre level of 1965 and a marketing quota referendum will be held on November 23. The national average price-support loan rate was not announced at the time the referendum date was announced.

Rice, rough equivalent: Supply and distribution and prices,
United States, average 1958-62, annual 1961-65 1/

Item	Year beginning August					
	1958-62	1961	1962	1963	1964	1965
	average				<u>2/</u>	<u>2/ 3/</u>
	Mil.	Mil.	Mil.	Mil.	Mil.	Mil.
	cwt.	cwt.	cwt.	cwt.	cwt.	cwt.
<u>Supply</u>						
Carryover August 1	12.3	10.1	5.3	7.7	7.5	7.7
Production	54.7	54.2	66.1	70.3	73.1	75.5
Imports	.3	.4	4/	4/	.5	.2
Total supply	67.3	64.7	71.4	78.0	81.1	83.4
<u>Domestic disappearance</u>						
Food <u>5/</u>	20.8	22.6	21.9	22.9	24.3	24.5
Seed	2.2	2.3	2.4	2.4	2.4	2.4
Industry <u>6/</u>	4.7	4.7	4.1	3.8	4.3	4.2
Total	27.7	29.6	28.4	29.1	31.0	31.1
<u>Exports 7/</u>	28.5	29.2	35.1	41.4	42.5	43.3
For dollars	(12.5)	(16.3)	(15.6)	(22.2)	(25.0)	
Total disappearance	56.2	58.8	63.5	70.5	73.5	74.4
<u>Carryover July 31</u>	10.2	5.3	7.7	7.5	7.7	9.0
Privately owned--"Free"	(5.7)	(5.0)	(5.9)	(6.1)	(6.6)	
Total distribution	66.4	64.1	71.2	78.0	81.2	83.4
Difference, unaccounted <u>8/</u>	+ .9	+ .6	+ .2	---	-.1	---
	-----Dollars per cwt.-----					
<u>Price Support</u>						
National average loan rate	4.54	4.71	4.71	4.71	4.71	4.50
<u>Price received by farmers</u>						
Season average	4.80	5.14	5.04	5.01	4.92	

1/ Data apply only to major rice-producing States. Milled rice converted to rough basis at annual extraction rate. 2/ Preliminary. 3/ Imports and distribution items are projected. 4/ Less than 50,000 cwt. 5/ Includes shipments to U. S. Territories and rice for military food use at home and abroad. 6/ Primarily for beer production. 7/ Include allowance for brown and parboiled rice beginning in 1962. 8/ Results from loss, waste, the variance in conversion factors, the lack of data on other uses, and the different crop years for the 2 rice areas.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR POULTRY AND EGG

Talk by Herman Bluestone
Economic and Statistical Analysis Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 10:50 A.M., Wednesday, November 17, 1965

Larger broiler and turkey production is in prospect for 1966. Poultry output may expand more rapidly than demand, causing prices to broiler and turkey producers to average lower than in 1965. Per capita consumption of chicken and turkey are expected to reach new highs--exceeding the 33 pounds and 7.4 pounds currently estimated for this year. Egg production, on the other hand, probably will rise only a little from the 1965 level. The increase in eggs may not be great enough to arrest the 14-year decline in per capita consumption. Thus, civilian use next year may be down slightly from the 307 eggs in 1965. Early in 1966, prices to egg producers probably will be well above this year's depressed level, but for the year as a whole may average about the same as in 1965.

The poultry market was unusually strong in 1965, due largely to less competition from red meats and continued growth in the economy. Broiler and turkey producers are selling about 6 percent more poultry this year at prices about 5 percent higher than in 1964. This contrasts sharply with the situation in the previous 2 years when red meat supplies were expanding and increases in broiler production of 4 and 3 percent led to lower broiler prices. Continued strength in poultry prices in 1965 quickened the pace of output expansion as the year progressed. Total poultry production ran only 2 to 3 percent above a year earlier in the first and second quarter. In the third quarter it was up almost 10 percent and in the fourth quarter will be up by an even wider margin.

Broiler production probably will begin 1966 about 10 percent above a year earlier and may continue to run substantially higher than in 1965 through next summer. Larger production is likely to be encouraged by the recently improved financial condition of the industry, by the upturn now under way in layers producing broiler hatching eggs and by the prospect of lower feed prices and a continuing decline in red meat supplies. The increase in broiler output in the first half of 1966 may be so large that broiler prices will average under a year earlier. If these low prices materialize, they would tend to temper the growth in broiler production as the year progressed but probably would not bring expansion to a halt. Moreover, once the production upturn loses steam, it may require a few months for broiler prices to recover. Broiler demand tends to weaken temporarily following a period of rapidly increasing consumption. Also, late in 1966, the decline in red meat production is expected to be reversed.

The indicated number of layers producing broiler hatching eggs in July-September was up 2 percent from the 1964 level; in January-April it will be up 10 percent from a year earlier. There is no fixed relationship between broiler breeders and broilers produced, particularly on the upside. For example, broiler chick hatchings 12 percent above a year earlier in October-December 1965 came from a breeder flock only 2 percent larger. However, once poultrymen have invested in broiler breeders they have an incentive to utilize hatching eggs for chicks as long as the value of the eggs for this use exceeds the price that could be obtained in the table egg market and as long as the value exceeds the variable costs of producing the eggs.

Higher turkey prices and lower feed costs this year appear to have set the stage for a large increase in turkey production in 1966. Farm turkey prices in January-October averaged 22.5 cents per pound compared with 21.2 cents in the like 1965 period. Even though turkey feed prices in 1965 are averaging about the same as in 1964, feed costs per pound of turkey meat produced may be down this year from last as a result of further improvement in feed conversion rates.

Stepped-up hatching activity in recent months, reported intentions to keep more breeder hens, and increases in turkey breeders tested for pullorum disease, all suggest that production expansion for 1966 is already getting started. Poult hatchings in September ran 26 percent above a year earlier and eggs in incubators on October 1 were up 17 percent. Owners of breeder hens reported plans as of October 1 to keep 5 percent more breeders for the 1966 season than in 1965. And so far, intentions to keep more breeders have been confirmed by pullorum testings which were up 40 from a year earlier in July-September. Testings in this 3-month period last year accounted for about one-fifth of July-December testings.

The turkey crop next year will be up substantially from the 103.7 million birds raised in 1965 and probably will exceed the record large crop of 108.1 million birds of 1961. Light breed turkeys may show a greater increase in 1966 than heavy breeds because prices for fryer-roaster turkeys this year were up more than other classes. Intentions to keep breeder hens were up 9 percent for light breeds and 4 percent for heavy breeds. Among the heavy breeds, intentions for white breeds were up 22 percent but for other breeds they were down 13 percent.

The demand for turkey next year may not expand as much as in 1965 despite the prospects for larger exports, some further decline in red meat production and continuing growth in the economy. Turkey exports in January-September totaled 34 million pounds and were 34 percent above that period of 1964. Turkeys will have to face competition from much larger broiler supplies in early 1966. And coming into the main marketing season, consumers will have been eating a record large quantity of poultry which may tend to temper

the holiday turkey demand. Consequently, if turkey production increases as much as expected, 1966 turkey prices to producers probably would average below 1965.

Egg production in 1965 is likely to total about 179 million cases about the same as in 1964 and prices to producers are likely to average about 1 cent per dozen below last year's 33.8 cents. Prices were extremely depressed in the first quarter this year as markets temporarily became oversupplied, as a result of a sudden weather-induced upsurge in the rate of lay. But prices since August have been above a year earlier. This has been mainly the result of the anticipation of smaller egg production this fall and winter than last and procurement of dried egg solids by the Department of Defense.

The low prices early in 1965, following relatively low prices in late 1964, brought about a 7 percent reduction in the number of flock replacement chickens raised in 1965. On October 1 potential layers (layers and pullets not yet of laying age) totaled 374 million compared with 383 million a year earlier. There were 19 million fewer pullets, but 10 million more hens. The number of birds actually in lay totaled 300 million down from 302 million on October 1, 1964. Over the next several months, layer numbers may fall further below a year earlier because of increased liquidation of old flocks. In addition, only a small increase in the rate of lay is likely through mid-1966 because of more hens and fewer pullets in the laying flock and because layer productivity in the spring usually increases very little from year-earlier levels. Consequently, egg production in the first half of 1966 is likely to be down a little from a year earlier.

The marginal factor in egg production in the second half of 1966 is the number of replacement chicks hatched over the next 6 or 7 months. In July-September, hatchings of replacement pullets totaled 53.0 million, up from 51.5 million in July-September 1964. Eggs in incubators on October 1 for egg-type chicks were up 7 percent. Higher egg prices in prospect this fall and winter, together with lower feed prices, are likely to keep hatchings larger than a year earlier over the next several months. This would lead to a larger, younger and more productive national laying flock than in the second half of 1965. Consequently, egg production in July-December 1966 likely would be up from the second half of this year. By the end of 1966, output may be up more than 2 percent.

Reflecting shrinking production relative to the 1965 level, and the impact of continuing dried egg solids purchases by the Department of Defense, egg prices are likely to begin 1966 about 5 cents per dozen above the low levels of a year earlier. However, next spring egg production, as usual, will exceed consumption. During this period, the price of eggs is largely determined by the demand for storage which in turn depends on the expected spring-to-fall rise in egg and egg product prices. Therefore, if expanded chick hatchings over the next few months strengthen the expectation of

relatively large egg production and lower prices late in 1966, farm egg prices will be under pressure next spring. They may decline seasonally to around the year-earlier average of 30.7 cents per dozen. While egg prices next spring will depend largely on the expected seasonal rise in egg product prices, prices in the second half will be influenced mostly by actual market supplies during this period. Thus, if the prospective upturn in egg production in the second half of 1966 occurs, the expanding supplies probably would limit the usual spring-to-fall rise in egg prices. Consequently, by the fourth quarter of next year, egg prices probably would be below the year-earlier level.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR VEGETABLES AND POTATOES

Talk by Donald S. Kuryloski
Economic and Statistical Analysis Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 1:30 P.M., Wednesday, November 17, 1965

SUPPLY AND DEMAND PROSPECTS

Supplies of canned vegetables are about the same as last season, but those of frozen vegetables are larger. Potatoes for marketing into late winter are record large, and output of sweetpotatoes is up substantially. Mainly because of a small crop, dry bean supplies are tight. Production of dry peas also was down from last year, but due to a big carryover, supplies are ample.

Prospects for general economic conditions next year remain favorable. Continued growth is expected, stimulated by stepped-up investment in plant and equipment, expanding consumer demand, and increases in government purchases. Rising consumer incomes and population are expected to contribute to a continued strong domestic demand for vegetables.

Foreign trade prospects for the coming season are mixed. Exports to Canada, the principal foreign buyer for our vegetables and potatoes, are likely to continue the upward trend of recent years. However, little change is likely in our fresh vegetable trade with Europe, since handling problems continue to restrict expansion in this area. Although foreign demand for dry beans likely will again be strong, export volume probably will be curtailed because of small U.S. supplies and quality problems with some classes. But dry pea exports are expected to continue heavy.

PROCESSED VEGETABLES

Canned vegetable supplies this season are about the same as those available last season. The 1965 canned pack was larger, but beginning stocks were substantially below a year earlier. Supplies of frozen vegetables are expected to be moderately larger than last season, as a considerably larger pack more than offset a light carryover.

Total planted acreage of 9 leading vegetables for processing was moderately larger than in 1964. Plantings of snap beans, lima beans, peas, and sweet corn were up considerably, more than offsetting slight cutbacks in spinach and cucumbers for pickles, and a substantial reduction in tomato

acreage. Yields of most vegetables were better this year, and early October reports indicate a processing tonnage moderately above 1964. Sharp increases in output were realized for cabbage for kraut, lima beans, snap beans, sweet corn, and green peas. Beet production was about the same as in 1964, while output of tomatoes was down moderately, and spinach production was down substantially.

For individual canned items, supplies of snap beans, green peas, and kraut are substantially larger than last season. Canned sweet corn supplies are about the same as the moderate supply last season. There are less beets, pickles, and spinach, although the supply of each is well above average. Supplies of tomatoes and tomato products probably are down substantially from a year ago.

Frozen vegetable supplies are larger than last year, mainly due to more green peas, carrots, and sweet corn. Stocks of broccoli, cauliflower, and spinach are relatively light, and holdings of other items are close to those of a year ago.

In the early months of this season, markets for canned vegetables have been strong. Prices for asparagus, tomatoes, and all tomato products were up considerably from last year, and prices for sweet corn and lima beans remained high. Only snap beans and kraut are likely to encounter market pressure because of large supplies. With only a few items in heavy supply and strong markets in prospect for asparagus, corn, tomatoes, and all tomato products, overall prices for canned vegetables during the 1965-66 season are expected to average higher than those of last season. Markets for frozen broccoli, cauliflower, and spinach are expected to continue firm well into the fall and winter packing season. But with especially large supplies of such major items as sweet corn, snap beans, and peas, frozen vegetable prices in general are likely to average lower than last season.

DRY BEANS AND PEAS

Dry bean supplies this season are expected to be materially smaller than the moderate supply last season. Both carryover stocks and production were smaller this year. Although farmers planted more acreage, bad weather cut 1965-crop yields, and production was the smallest since 1957.

Production data by class of bean are not yet available. However, production by States indicates that supplies of colored beans are about the same as the light supply of last season, with more pintos but fewer small red, pink, and red kidney beans. Total supplies of white beans are down sharply; supplies of both pea beans and Great Northerns are relatively light.

Despite prospects for a strong foreign demand for U.S. beans, exports are expected to be off sharply from last season due to the smaller supply and

probable lower quality of the important export classes. Domestic use of dry beans probably will be down only slightly.

The national average support price for 1965-crop beans is \$6.32 per hundredweight, the same as last year. However, rates for pea, medium white, and dark red kidney beans were reduced 25 cents per hundredweight. Rates on other supported classes were increased 19 cents. Prices for dry beans this fall are running materially above year-earlier levels, reflecting the prospective short supply. For the season, prices to growers for 1965-crop beans likely will average well above last season, and probably the highest in many years.

Supplies of dry peas are moderately below the burdensome supply of last season. Production was down sharply in 1965, more than offsetting heavier beginning stocks. Domestic use of peas is expected to match that of last year, and a continued strong export demand is likely. Early reports indicate that crops of other leading supplying countries to the important European market are smaller than last year. With overall demand prospects reasonably favorable, and supplies smaller, prices for dry peas likely will average above the depressed levels of last season.

POTATOES AND SWEETPOTATOES

Potato supplies for fall and winter marketing are sharply above a year ago. Early October reports indicated combined production of late summer and fall potatoes would total 246 million hundredweight, up 23 percent. Late summer production was up 8 percent, and fall crop tonnage, at 216 million hundredweight, was a fourth larger, and record large. Production was up 52 percent in the West, and up 29 percent in the Midwest. However, Eastern output was 4 percent smaller. Because of much more acreage and excellent growing conditions, fall crops in all Western States were considerably larger this year. Output in Idaho, the leading U.S. producer, was up 61 percent. While all the leading Central States have more potatoes this year, most of the increase occurred in Wisconsin, Michigan, Minnesota, and North Dakota. Combined output in these States is up nearly a third from 1964. Maine's fall crop is down 9 percent, and output in Connecticut is off moderately. But all other major producing States in the East have larger crops.

Potato prices continued above average through early fall as growers concentrated on moving their crop into storage. Concern about the effects of bad weather on the marketable supply contributed to market strength. However, prospective supplies are far in excess of trade needs. Markets are expected to be under considerable pressure into late winter, with prices in all areas averaging sharply below the high levels of a year earlier.

Sweetpotato supplies are substantially larger than last season. Production is estimated at 17.4 million hundredweight, 14 percent above the short

crop in 1964, but only a little above the 1959-63 average. Output is up in most States. But the bulk of the increase has been in States where storage capacity is ample--Louisiana, Georgia, North Carolina, Mississippi, and New Jersey--indicating orderly movement of the larger supply.

Prices in early fall were substantially below the high levels of last fall. And with remaining supplies heavier, prices likely will continue below a year earlier. For the season, prices to growers are expected to average sharply lower than last season, but close to average.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR COTTON IN 1966

Talk by James R. Donald
Economic and Statistical Analysis Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D.C., 2:45 P.M., Wednesday, November 17, 1965

The cotton outlook is highlighted by the passage of new legislation. The new program will be effective for the 1966-69 crops of upland cotton. The law continues the 1-price program, maintains the national minimum acreage allotment at 16 million acres, and retains the domestic allotment concept. But the new bill differs from the present program in several respects. Although the national acreage allotment is unchanged, strong incentives to cut acreage are provided in the form of direct payments to producers who cooperate by planting less than the allotted acreage. Nearly all producers likely will participate in the program. At the same time, price support loans to producers are dropped below world price levels. This is expected to stimulate the movement of cotton into domestic and export markets.

The new program establishes a domestic allotment within the farm allotment of not less than 65 percent of the farm allotment, but, except for small farms, a reduction of 12.5 percent from each farm's share of the 16-million acre allotment is required for participation in the program. Producers may divert up to 35 percent of their farm's allotment. Payments for diverted acreage will be at the rate of not less than 25 percent of parity price multiplied by the projected yield of the acreage required to be diverted. Producers who divert an additional 22.5 percent of their allotment, to a total of 35 percent, may receive up to 40 percent of parity on the additional acreage. The payment rate for all diverted acreage in 1966 will be 10.5 cents per pound. (Small farms--those with allotments of 10 acres or less or those farms whose projected production of the farm allotment totals 3,600 pounds or less--are exempt from the mandatory acreage reduction. They will be eligible to receive the same level of price support provided to other producers and a diversion payment as if they had reduced their acreage 35 percent and may receive additional payments if they choose to divert.)

The basic loan level for Middling 1-inch cotton to cooperators is set at 21 cents per pound for the 1966 crop, down from 29 cents for 1965. For each of the crops in 1967 through 1969, the loan level may not exceed 90 percent of the estimated world market price, basis Middling 1-inch cotton at average location in the United States, during each marketing year. Direct payments are also provided to producers which, when added to the loan rate, will reflect not less than 65 percent of parity on the projected yield multiplied by permitted acreage (87.5 percent of the acreage allotment) or at a rate of

not less than 9 cents a pound--the rate will be 9.42 cents for the 1966 crop. The new legislation permits holders of 1965 acreage allotment to stay out of the program, forego all price support and payments, and plant and sell cotton into export without penalty. However, the national total of such nonprogram acreage may not exceed 250,000 acres in 1966, and producers who plant some of this acreage must export their entire production.

The supply-demand situation this year is highlighted by another large crop and a further buildup in cotton stocks. (See fig. 1.) The carryover of all kinds of cotton in the United States on August 1, 1966, is expected to total a record-high 16.2 million bales, about 16.0 million bales of which will be upland cotton. This compares with 14.3 million bales on last August 1 and the previous high of 14.5 million in 1956.

Most of the increase in carryover is expected to be reflected in Commodity Credit Corporation stocks. Commercial holdings are not likely to show any significant change during 1965-66, after some rebuilding during the past crop year. (See fig. 2.) CCC stocks last August 1 totaled a record 11.6 million bales, up from 10.4 million a year earlier. Stocks held by commercial interests at 2.7 million last August were up from 2.0 million a year earlier when stocks had been reduced because of the prospect of lower prices during 1964-65.

Cotton production this year is expected to total nearly 15.1 million bales, almost the same as the 1964 crop. This is well above estimated disappearance of 13.3 million bales, which is up only slightly from the past year. (See fig. 3.) The large 1965 crop reflects record yields. Mill use of cotton this year is increasing slightly and is expected to be at the highest level since 1952-53. Exports are expected to remain at the 4-million bale level of a year earlier.

The 1965 crop is being produced on 13.6 million acres, down 3 percent from 1964 and the smallest acreage since 1958. About 1 million acres were taken out of production in 1965 by participation in the Domestic Allotment Program. The indicated national average yield per harvested acre of 531 pounds is up from the previous high of 517 pounds in 1964 and the 1959-63 average of 464 pounds. (See fig. 4.) Record yields this year reflect favorable growing conditions in some areas, particularly the Southwest; also, the use of land better suited to cotton production, greater use of irrigation, and increased use of fertilizer, insecticides, and herbicides. Also, larger acreage was planted in "skip-row" patterns this year and this practice results in higher yields. (USDA has announced revised rules for "skip-row" planting in 1966.)

Mill consumption of all kinds of cotton during the 1965-66 crop year is estimated at about 9.3 million bales (9.1 million bales of upland cotton). This would be slightly greater use than during 1964-65 and over 600,000 bales above 1963-64. The rise in consumption during 1964-65 resulted from lower net costs of upland cotton to domestic users, provided for in legislation enacted in April 1964, and from an expansion in general economic activity.

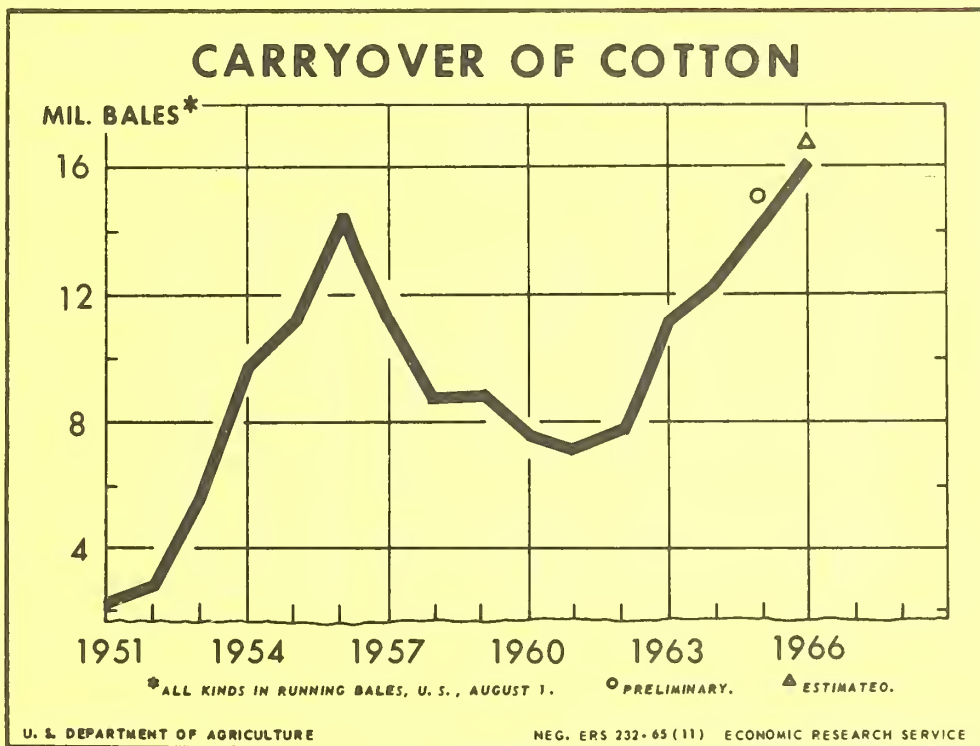


Figure 1

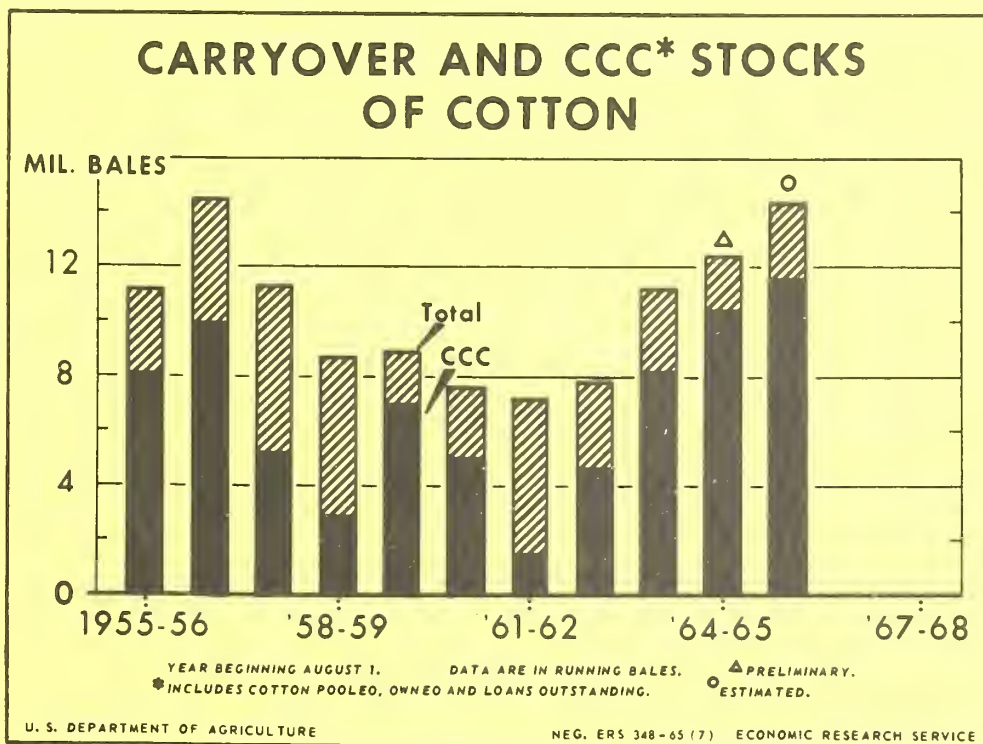


Figure 2

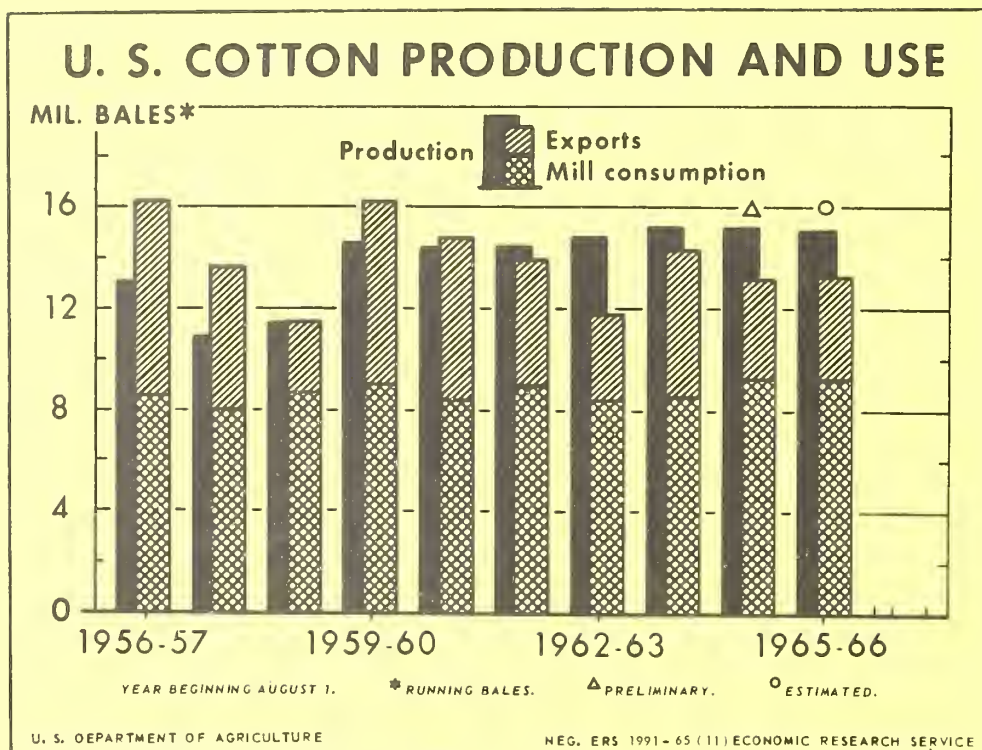


Figure 3

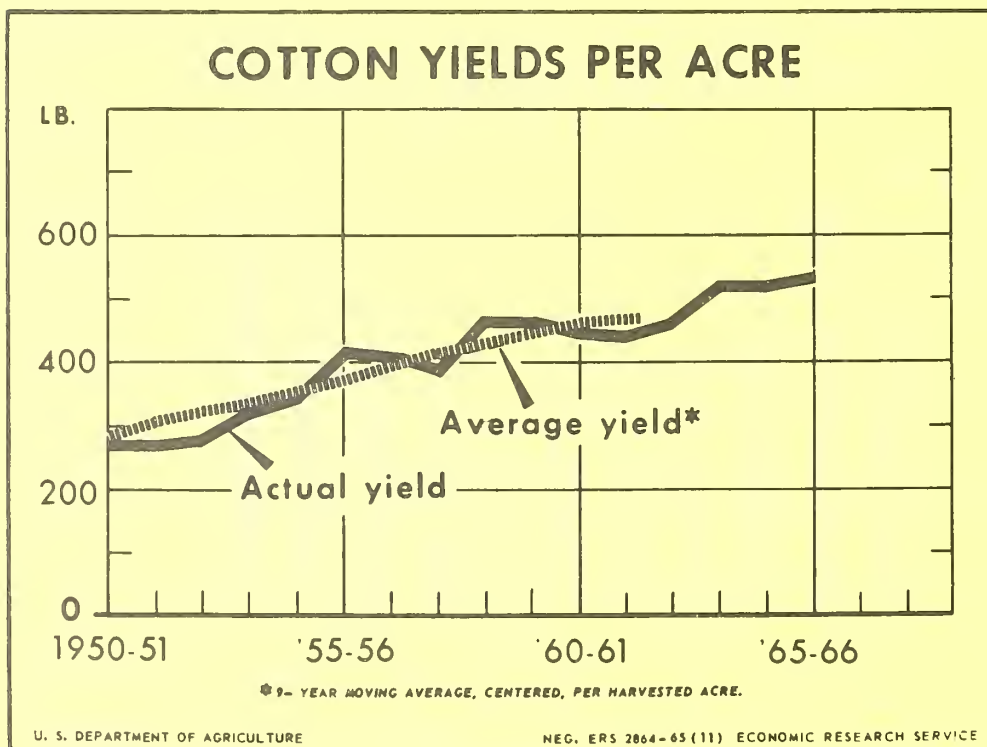


Figure 4

Further expansion in general economic activity is expected to stimulate cotton consumption this year. Also, a slightly higher level of cotton consumption is indicated this year by the high rate of use in recent months and the high level of unfilled orders for cotton cloth at mills in relationship to inventories of cloth. The daily rate of use in September was nearly 1 percent above a year earlier. (See fig. 5.) The stock-unfilled order ratio of 0.21 at the end of September was down from 0.38 in September 1964. However, the rapid increase in the use of non-cellulosic staple fibers has modified the increase in cotton consumption.

Production of fabric blends, which usually include non-cellulosic fibers as the major fiber, are increasing sharply. These blends are replacing 100 percent cotton fabric. To illustrate, at the end of September 1965 there were 15.0 million cotton-system spinning spindles consuming 100 percent cotton, down 100,000 from a year earlier. Spindles consuming other than cotton rose by 600,000 during the same period. In terms of fabric, polyester blends with cotton are the most common fabric blend. The weekly average rate of production of these blends in August 1965 rose 47 percent from the previous August, while cotton fabric production was up about 1 percent. For the January-August 1965 period, fabric blend production was up nearly 41 percent, while cotton fabric production was up 1 percent. Sharp price reductions for non-cellulosic fibers in recent years have contributed to their expanded use.

While the use of non-cellulosic fibers has been at record levels in recent months, the increasing rate of use of rayon and acetate staple fibers has slowed. (See fig. 6.) Use of these fibers in September was down nearly 4 percent from September 1964, although use showed some recovery from August, when the rate was the lowest since April 1963.

Per capita mill consumption of cotton for calendar 1965 is estimated at 22.8 pounds, up nearly 3 percent from 1964. Cotton's share of total fiber consumption, however, is expected to show a further slight decline for the year to an all-time low of 52.9 percent. (See fig. 7.) Man-made fiber consumption is expected to total a record high in 1965. Of these, non-cellulosic man-made fibers are showing the sharpest gain and may rise nearly 19 percent. Per capita consumption of all fibers, estimated at 43 pounds, would be up 6 percent from 1964 and the highest since 1951. In terms of actual pounds of fibers, 1965 consumption will likely be the largest on record--over 7 percent above the previous high in 1964.

U.S. exports of cotton during the 1965-66 crop year are expected to total around 4 million bales, down slightly from 4.1 million a year earlier. The rise in consumption to a record high in foreign free-world countries is expected to be largely offset by a rise to a record high in production, and some working down of stocks is expected in foreign countries.

U.S. exports fell sharply during the 1964-65 crop year from a year earlier because record production in foreign free-world countries continued to narrow the gap between cotton consumption and production in these countries. (See fig. 8.) While consumption of cotton has been rising in foreign countries along with corresponding population increases and higher levels of economic activity, sharp advances in the use of man-made fibers have modified the upward trend in cotton consumption. For example, during the past crop year total foreign consumption of cotton rose about 1.5 million bales, while man-made fiber consumption increased by the equivalent of 3 million bales of cotton. At the same time, production of cotton has trended upward sharply in foreign countries--at a faster rate than has consumption. This production increase has resulted from an expansion in cotton acreage and higher yields. Acreage has responded to the profitability of cotton as a cash crop, as an earner of foreign exchange, and as a result of Government encouragement in many countries. Yields are trending upward as a result of improved technological and cultural practices, as well as increasing use of water resources and land better suited to cotton production.

U.S. imports of cotton textiles have been running at record levels during calendar 1965. Large imports reflect the expansion in general economic activity in the United States, a high level of activity within the domestic textile industry, and rising cotton textile prices despite reduced raw cotton costs. Imports for January-August 1965, on a raw cotton equivalent basis, totaled 495,000 bales, nearly 18 percent above the same period in 1964. The sharpest increase in imports was in cotton cloth, which rose nearly 35 percent. Imports of cloth are sensitive to changes in domestic prices for these items. U.S. exports of cotton textiles for the first 8 months of 1965 were down about 25 percent from a year earlier, partly because of rising costs for domestically-produced cotton textiles.

For January-August 1965, net imports of cotton textiles were equivalent to 262,000 bales, up sharply from 112,000 bales for the same period of 1964. Thus, the equivalent final domestic use of cotton for this period was 262,000 bales larger than the volume of cotton put into process by U.S. textile mills. For the 1964-65 crop year, final domestic consumption at 9.5 million bales was 300,000 bales larger than mill consumption and 800,000 above 1963-64 domestic use.

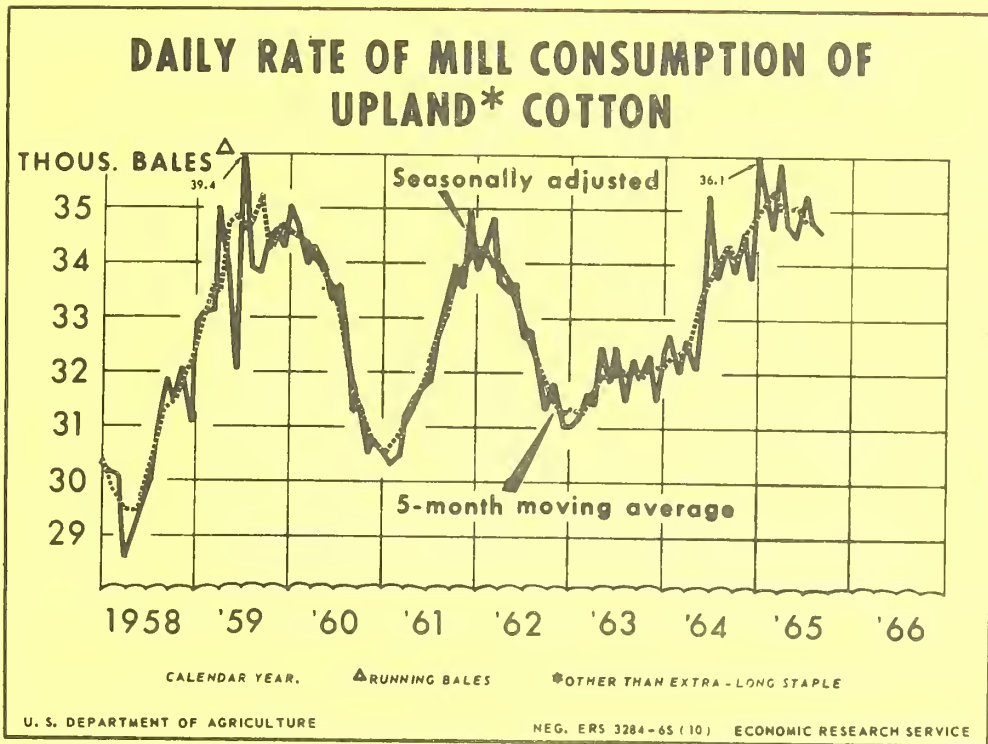


Figure 5

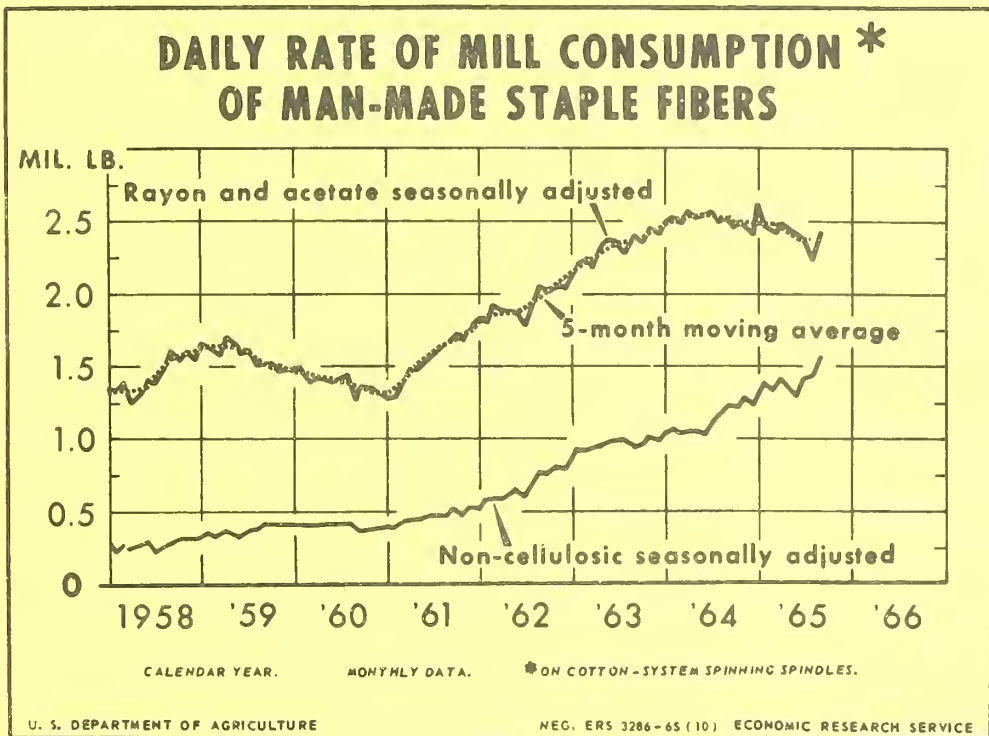


Figure 6

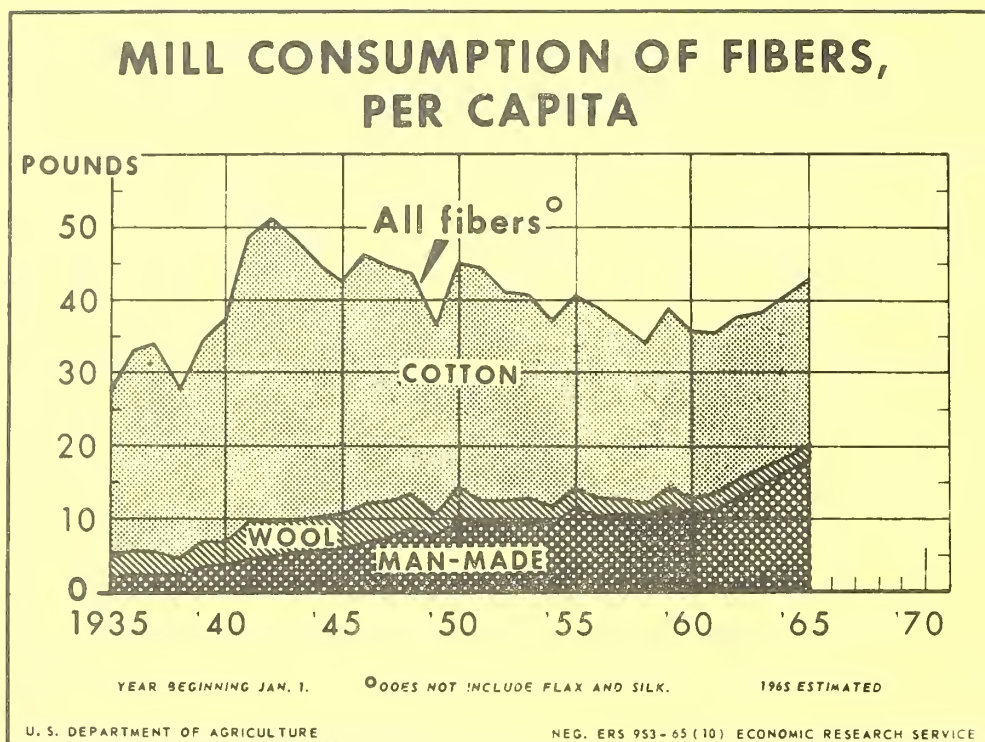


Figure 7

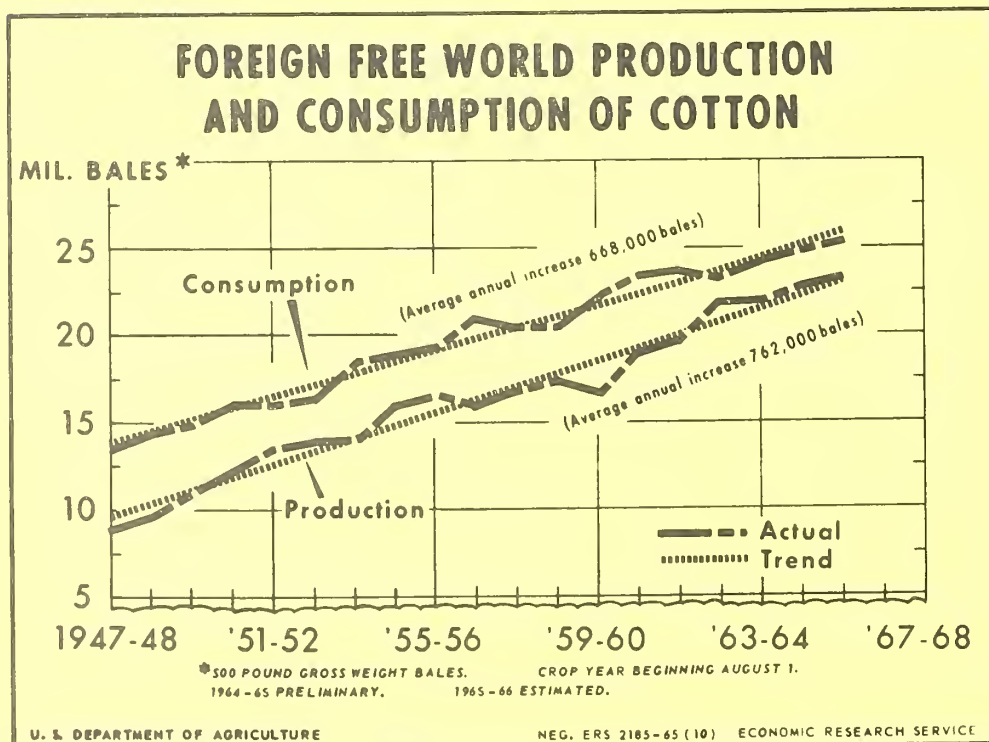


Figure 8

UNITED STATES DEPARTMENT OF AGRICULTURE
Federal Extension Service

INCOME-PRODUCING OPPORTUNITIES IN RECREATION

Talk by Karl F. Munson
Resource Development and Public Affairs Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 2:45 P.M., Tuesday, November 16, 1965

It is an honor to present the first paper on recreation at the National Outlook Conference. Including this subject recognizes the economic importance of leisure time spending in America.

We will first take a look at the overall demand for recreation. We will then proceed to the role of the private sector. The next step will be looking at the capital investment and net returns of different kinds of recreation enterprises. We will analyze this with two approaches -- the enterprise approach and its capital and management problems on one hand; and on the other hand, the "egg money" approach.

Recreation Demand

The actual amount spent for leisure in the United States is somewhat in doubt. However, a range goes from the low of \$20 billion established by ORRRC Reports to the \$35 billion figure just recently presented by the Wall Street Journal.

Consumer expenditure figures have never been adapted to really show the concise family spending for recreation. The recreation figure does not reflect all of the recreation expenditures. Some of it is included in transportation, food away from home, etc. A survey of consumer expenditures of urban families, with two or more members, shows that recreation costs range from \$77 for families with under \$1,000 disposal income to \$672 for families with over \$15,000 disposal income. The percentage spent for recreation averages from 1.8 for under \$1,000 to 5.4 for \$10,000 and over.

In Kentucky 21 million out-of-state visitors spent \$220 million in 1963. Two-thirds of the trips were for pleasure and personal reasons, while a third were for business. This is an increase of 162 per cent since 1948. The total retail trade and service business increase in that same period was only 98 per cent. Recreation services went up 245 per cent in the period from 1948 to 1963.

Projections of demand for leisure time experiences range from a conservative tripling by the year 2000 to 1000 per cent increase in the year 2000. I suspect that the demand increase will be some where in between.

All of this leaves us with one conclusion. We cannot project an exact quantity of the recreational demand, but it will be at least three times the present demand by the year 2000.

Another statement that most authorities will agree upon is the following from the ORRRC Report:

"But the provision of outdoor recreation can never be entirely the responsibility of government if the magnitude and range of needs are to be met. The private sector of the economy can play an important role by allowing the use of private lands, under proper safeguards, for such activities as hunting and fishing, and also by providing recreation facilities of varying degrees of elaborateness from simple picnic grounds to luxury hotels and dude ranches."

One of the important areas in which the private sector becomes involved is the one where there is economic discrimination. The following quote from ORRRC points out that, "Outdoor recreation, unlike such service as police protection, cannot be the responsibility of government alone. General access to the out-of-doors and simple facilities should be made available to everyone, but the more specialized activities are among the good things of life that must be paid for by the individual who wishes them."

Private Enterprise Studies

The Economic Research Service has recreation enterprise studies in six representative areas of the United States. These are Arkansas, Missouri, New England, Ohio, Oregon and South Carolina. These studies summarize information from 254 recreational businesses.

Cash incomes exceeded cash expenses for 86 per cent of the enterprises analyzed.

Sixty per cent showed a return to operator, family labor, and management after 5 per cent capital investment return.

The majority of the businesses returned less than \$10 per day to operator and family labor.

The chart on page three shows some of the major areas covered by case studies.

ERS lists three major causes for small returns:

1. Small size of the enterprise
2. Low customer use in relation to capacity and peak season

<u>Enterprise</u>	<u>Capital investment</u>	<u>Annual cash income</u>	<u>Net cash income</u>
35 Fishing lake (warm water)	3,250 to 48,330	55 to 7,000	--260 to 2,200
10 Fishing lake (trout water)	1,626 to 105,100	450 to 30,000	28 to 7,665
8 Guide service	0 to 7,500	500 to 8,450	238 to 2,740
12 Vacation farm or dude ranch	9,365 to 130,000	400 to 32,500	--600 to 4,564
7 Vacation farm	0 to 960	42 to 2,650	--12 to 1,325
22 Hunting area	0 to 23,000	75 to 11,000	75 to 3,850
10 Shooting preserve	11,750 to 152,850	2,500 to 50,600	-3,440 14,850
19 Campground	1,205 to 34,800	125 to 9,600	--446 to 7,819
8 Picnic area	700 to 83,150	50 to 1,468	--150 to 792
15 Riding stable	5,115 to 40,000	400 to 21,000	--2,290 to 15,210
6 Youth camps	7,460 to 140,000	6,300 to 56,000	3,030 to 23,090
11 Minnow farm	2,490 to 503,000	50 to 160,000	--265 to 68,600
9 Boat rental	3,300 to 54,500	325 to 37,000	115 to 5,484

3. Short season or weekend use only.

The successful operators attributed their success to:

1. Location on or near a paved road or near a public recreational area
2. Advertising
3. Well-trained employees
4. A variety of facilities to interest the entire family
5. Well-developed community enterprises to encourage a longer season
6. An attractive facility
7. Good service and catering to individual wishes of customers

ERS further refined the data to average investment and returns for successful enterprises. They define success as "sufficient net cash income to equal annual depreciation, interest on investment, and wages for unpaid family labor."

The following table shows capital investment, return to family labor and management, and amount of family labor of successful enterprises:

	<u>Capital Investment</u>	<u>Return to Family Labor & Management</u>	<u>Amount of Family Labor</u>
<u>1961</u>			
Fishing lake	15,500	1,600	90 days
Fishing guide service	750	762	60 days
Vacation farm	1,000	1.370	50 days
Hunting area	5,000	1.350	10 days
Shooting preserve	61,500	5,875	300 days
Campground	17,500	6,775	350 days
Picnicking area	3,500	700	50 days
Riding stable	46,000	5,950	300 days
Organized camp	166,000	8,240	250 days
(continued on next page)			

Minnow farm	70,500	11,895	500 days
Real Estate development	20,500	8,563	-----
Recreational complex	247,000	12,200	300 days

Capital and Management Problems

These and other State experiment station studies have pointed up several problems.

One glaring conclusion is that a net return of a satisfactory level to be a significant contributor to family income calls for the same investment that any major agricultural enterprise calls for. Another way to say it is that when recreation is a major farm enterprise, it requires the same high level of capital investment, labor, and equipment management as any major agricultural enterprise. It also requires the added ingredient of dealing with people.

This high capital investment and requirement of dealing with the recreation consumer on the consumer's level, removes the major farm recreation enterprise from being a panacea for low-income farm operators. In our Vermont Pilot Project, only one out of ten landowners serviced on these recreation enterprises were former or are present full-time farmers.

Some enterprises in the ERS studies returned satisfactory incomes for part-time efforts of the operators. These enterprises were usually supplementary to farming, and the capital investment was usually less than \$15,000. Most often in this category were picnicking areas, campgrounds, vacation farms, hunting areas, and guide services.

This leads us into our next topic of "egg money" recreation enterprises.

"Egg Money" Enterprises

Let us talk about another type of income -- the "egg money" concept. ERS points out that the return to family labor is often as low as 10¢ per hour. This reminds me of the small chicken flock or the one or two cows that the farm families kept.

I doubt if the amount of labor input for amount of returns received was the real reason people went out of 300 hen laying flocks and the two cow milk herd. I wonder if the "udder nonsense" of cold hands on the production end of a cow at 5:30 A.M. was not a stronger factor than the low return -- causing the disappearance of this wonderful American phenomenon.

One area that fits this description very well is allowing access to the farm for hunting at a fee. The hunting land available through public needs cannot possibly fit the demands. Private farmland needs to be open to the

hunting public. This clearly indicates that the majority of our hunting and fishing in the future will still rely, as it does today, on private land. The farmer cannot possibly provide this without some compensation. In Pennsylvania alone it is predicted that there will be an additional 100,000 hunters by 1975, if the same percentage of our population hunts. There will be a million acres going from crop and pasture land into forest and woodland by 1975. Small lakes and ponds will increase by 12,000 acres.

In order to cover the cost of inconvenience and liability, farmers in the future should charge a small fee. A good action example of this is the Custer County, Nebraska, Gameland Project. This is a fee hunting project that has stirred national interest in resource development circles. The studies of this by the Business Research Bureau of the University of Nebraska showed only 5 per cent of the farm hosts in Custer County receiving gross incomes from this project of \$500 or more. The project returned approximately \$11,500 in the 1964-65 season, or an average of \$180 per host. The average charge per day for board and room was \$10. The total spending of the hunters in Custer County for the 1964-65 season was estimated at \$27,000. This may seem like a small amount for both the individual family and the total county economy, but it still is additional money in circulation.

The outdoor sports magazines have continually stated that the farm pond is the highest quality fresh water fishing available today. Again, the farmer must have his inconvenience and liability costs covered.

Several farm pond owners have eliminated the management problem of entrance fees by one or two methods. One is to set up an honor system box, which has worked well in several cases. A more satisfactory method is to develop a lease with a group of nearby fishermen who will contract for an exclusive access to the pond. Under this method, some farmers have even constructed additional ponds and charged an annual lease rent ranging from 10 to 15 per cent of the total investment in land and structures.

Neither hunting or fishing enterprises of this type will probably be large enterprises, but the "egg money" can certainly be satisfactory. There are other types of enterprises such as stabling horses and providing riding privileges, providing hiking privileges, etc., that provide "egg money" income.

Psychic Income

Let's move to a more sophisticated description. There is a definite area of "psychic income" in providing certain recreation enterprises. One of the best examples of this is the growing area of farm vacation enterprises. Some economists say this area will never be a significant contribution to the economy. However, in the short range view, the growing number of urban families with one or more parents with a rural background makes a growing demand for this type of experience.

The following quote from Information Specialist Don Dickson's study of farm vacation enterprises in Ohio explains "psychic income" as I am using it:

"The friendly treatment, and 'country way of life' seem to be the strongest appeals farm vacations have. Many hosts 'feel almost guilty for taking money to make friends.'"

Mr. and Mrs. Ed Furman of the Endless Mountain, Pennsylvania Association have said, "We would like to go places and meet people, but we can't get away from the farm for long. There is no such thing as a good cow sitter, so we do the next best thing -- bring people to us." They also added that it has broadened their own children's outlook.

There are some farm vacation spots that have gone into farm vacations in a big way. Over a period of time they have gone out of dairying, or other intensive agricultural enterprises, and concentrated on the major enterprise of farm vacations. The majority, however, have this as a supplemental income, which relies almost entirely on the energy, friendliness, and management abilities of the farm wife.

Summary

Perhaps this speech can be summarized in a few sentences:

1. A landowner can make a living income from recreation enterprises with the proper capital investment, good capital and labor management, and a real personality to make the recreation consumer feel that satisfaction has been received. This net income and capital investment will be about equal to any commercial farm enterprise.
2. "Egg money" can be made from supplementary recreation enterprises, and these enterprises will make a significant contribution to the outdoor recreation supply.

Conclusions

I want to conclude with some additional thoughts:

1. Technical aid is the critical point at the present time. As you do not go to a veterinarian when you have an appendicitis attack, the technical services to farm families must turn to the recreation field for technical aid in providing information on recreation. We must become "competent" not just "confident" when we give recreation advice to a landowner. The park and recreation field has much knowledge that is available and many technicians who can be of aid in this. We have in agriculture the traditional strength of information outlets to provide this recreation information to landowners. We must now

strengthen our technical knowledge. An easygoing Agricultural Extension Specialist, County Agent, U. S. Forest Ranger, or Work Unit Conservationist, should not just automatically become the "expert" in this area. Experienced and well-trained recreation people should be hired, where possible. If recreation technicians are not available, an intensive in-service training program should be given to the assigned personality.

2. We must keep in mind that the income opportunities in recreation are not as closely tied to the natural resources as they are to the personality and the services provided on the land. Telling a landowner that he has a beautiful site for outdoor recreation can be misleading. If this man does not like people and does not have a tremendous desire to serve their every need -- forget it.
3. Seventy per cent of the land resource being in private hands makes it absolutely necessary to use private land to serve the recreation demand.
4. Some of the most important factors to consider in decision-making on farm recreation enterprises are (mainly in order of importance):
 - a. Personality of operator and family
 - b. Labor supply
 - c. Accessibility of the site (including nearness to population center)
 - d. Climate
 - e. Community facilities and attitudes
 - f. Scenic attractiveness
5. The traditional "Agricultural Ladder" concept has some analogy comparisons for successful recreation complexes. If you study a typical successful private farm recreation complex, you will probably find they started with the landowner having a demand for picnicking and camping privileges. After opening camping and picnicking facilities, there came a demand for swimming facilities....and on it goes....
6. The private and public sector do not conflict. There is a tremendous need for public provision for recreation services for all people. The affluent American is going to call for services beyond the responsibility of the public sector. The private sector must serve this additional demand, and fill in where there are voids in the public responsibility.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR LIVESTOCK AND MEAT

Talk by Robert L. Rizek
Economic and Statistical Analysis Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 3:10 P.M., Tuesday, November 16, 1965

The relatively favorable situation for most livestock producers this year is expected to continue in 1966. Prices of cattle, hogs, and lambs will likely average higher, more than offsetting a possible slight decline in marketings. Thus, cash receipts from marketings are expected to show another gain in 1966.

The livestock economy this year featured 3 particularly notable developments. First was the halt in the buildup in the cattle inventory which had been growing since 1958. Unlike in past periods like this, prices of most classes of cattle this year rose, the first year in the downswing phase of the cattle cycle. The second development was the continuation of the reduction in hog output which started late in 1963. This resulted in substantially higher hog prices this year. However, a reversal may now be underway. The third development was a substantial slackening in the reduction in sheep and lamb numbers--a reduction that has been going on for the past 5 years. These developments have an important bearing on the outlook for 1966 and future years.

CATTLE

The cattle inventory will be down moderately this year, following 7 successive years of buildup. Cattle and calf slaughter this year will total over 40.5 million head, up 4 percent from 1964. This increase, following the increase in slaughter last year, will result in a decline of more than a million head in the inventory at year-end. More important than the decrease in the total inventory, however, are the changes in the makeup of the inventory. There will be fewer cows in breeding herds next January 1, more steers, but fewer heifers.

However, unlike past periods of major downward adjustments in the cattle inventory, prices to producers have been favorable this year. In fact, the price level increased in the second half of the year as compared to earlier in the year or the year before. Higher cattle prices this year, especially feeder prices, will help decide whether the inventory will continue declining for several years--as in past cycles--or if producers are likely to begin rebuilding herds soon, resulting in an increase in the inventory, after only a short pause. In view of the current situation and the favorable outlook for 1966, producers will likely start rebuilding herds next year. This means that cattle and calf slaughter next year is likely to be down slightly from 1965 levels.

However, slaughter is not likely to be down enough to prevent a further decline in the inventory next year. Slaughter in 1966 would have to be down approximately 3-4 percent to hold the January 1, 1967, inventory equal to a year earlier.

Although the number of cattle slaughtered this year is expected to rise roughly 4 percent from 1964, beef production will be up only about 1 percent. Beef production has not increased as much as slaughter because cows and heifers have made up a larger part of total slaughter and marketings out of feedlots have been at lighter weights. Other factors contributing to the strength in cattle prices this year were the continuation of strong consumer demand and smaller supplies of competing red meats.

Cattle prices next year will probably continue favorable. Fed cattle prices likely will stay strong and average about the same to slightly higher than in 1965. Fed beef production is likely to be somewhat larger because of more cattle moving through feedlots and heavier weights. However, this gain probably will be offset by smaller supplies of nonfed beef and other red meats and continued strong consumer demand. Although the level of feeding expected in 1966 probably will not have any major price-depressing effect, bunching of marketings in any period of the year could depress prices.

The supply of cattle available for placement in feedlots or addition to breeding herds next January 1 is expected to be about the same or slightly larger than this year. The carryover of steers and heifers is expected to be largely unchanged from last January 1. The number of heifers will be down somewhat, but there will likely be a compensatory increase in the number of steers. The number of calves is expected to be up slightly.

Feeder cattle prices rose sharply last spring in response to the strong demand for feedlot placements. Prices of heavy feeders declined slightly during the summer, but have been stable since. Feeder calf prices, however, continued strong through the summer and are averaging above midyear levels. The outlook for above-average wheat pastures and relatively good pasture conditions this fall and winter is aiding feeder prices this fall. Feeder prices probably will make a strong seasonal rise this winter; this strength likely will be carried through the year. Increased demand for feedlot placements as well as demand for heifers for additions to breeding herds will give considerable strength to prices.

Calf slaughter increased 6 percent in 1964, ending a 3-year decline. Another increase of about 2-4 percent is probable this year. This situation is likely to be reversed during 1966 because of a smaller calf crop next year and because of a likely increase in the demand for calves both by stockmen and feeders.

Cow slaughter, which increased substantially in the second half of 1964, continued well above 1964 levels through October. Although cow slaughter likely will decline to year-earlier rates by early winter, slaughter this year is expected to be up approximately 1.3 million head above the 1964 level.

The sharp increase in cow slaughter during the last 2 years likely will bring about a reduction in the number of cows on farms next January 1. Although dairy cows will account for most of the decrease, beef cows are also likely to be down somewhat. Cow slaughter likely will fall off next year and average somewhat below 1965 levels, if cow-calf operators decide to start rebuilding herds. This is a likely prospect because of the favorable prices expected for fed cattle and feeder cattle.

Cow prices have averaged somewhat above last year through most of 1965, even though slaughter has been up approximately 30 percent. Strength in cow prices last spring and summer developed because of reduced slaughter rates of other nonfed cattle, smaller imports of beef, and later in the year, because of some increase in demand for herd cows. Cow prices are expected to hold above a year earlier this fall and winter and to continue strong throughout 1966.

HOGS

Hog prices have risen substantially this year in response to smaller supplies, especially since April. The summer peak of \$23.95 in August (barrows and gilts at 8 markets) was the highest in over a decade. Beside the smaller supplies, there was continued strong consumer demand and generally higher prices of other red meats. Hog prices next year are expected to average moderately above 1965 levels in response to continued reductions in per capita supplies. However, most of the strength in hog prices will occur during the first 6-8 months of the year. Later in the year, prices likely will decline below levels this fall as slaughter supplies gain.

The June-November 1965 pig crop, which will provide most slaughter supplies in the first part of 1966, is probably down 7-8 percent from a year earlier. A further curtailment in supplies is likely as producers hold back large numbers of sows and gilts for breeding during the early part of the year. As a result, hog prices during the first half of 1966 are expected to average above these months of 1965, when barrows and gilts were \$16.68 at 8 markets in the first quarter and \$20.43 in the second. Poultry supplies are expected to be up substantially during the first half of the year, putting some downward pressure on hog prices. But supplies of red meats other than pork are not expected to be much different from last year.

Prices later in the year will depend on the decisions producers now are making for March-May farrowings which account for more than 60 percent of the spring pig crop. Hog producers apparently are beginning to halt the downswing

in production that began late in 1963. Producers reported intentions September 1 to have the same number of sows farrow during December 1965-February 1966 as in these months a year earlier. This is a marked change from the reduced production so far this year. In June-August, 10 percent fewer sows farrowed than a year earlier, and producer intentions point to 5 percent fewer farrowings in September-November. Thus, while producers began the fall farrowing season 10 percent below 1964 levels, they intended to begin the spring farrowing season at about the same level as a year earlier. A further indication of a production expansion is the recent drop in sow slaughter. Earlier this year, slaughter of barrows and gilts and sow slaughter were down from 1964 by about the same proportion. In recent months, slaughter of barrows and gilts has been down around 3 percent from a year earlier, but sow slaughter has been down about 25 percent.

Hog prices later in 1966 will depend primarily on how quickly the apparent expansion in hog production develops and how large it is. A modest increase over 1965 farrowings in the late spring is the most likely prospect. This would result in only a slight increase in production by late next year. As a result, prices then would likely decline only slightly below the levels of this fall. However, based on past patterns in production cycles, there is a real danger of overexpansion and resulting low prices in 1967. If producers increase farrowings late next spring and next fall by 10 percent or more, hog prices likely will drop sharply by late 1966 and in 1967.

SHEEP AND LAMBS

Sheep and lamb slaughter is expected to be down by about 10 percent this year. As a result of this sharp decline, the sheep and lamb inventory on January 1 is expected to total about the same or be only slightly below the 26.7 million head on hand at the beginning of this year. This in effect, would end 5 years of inventory reduction. The withholding of ewe lambs for additions to breeding flocks started this year is expected to continue in 1966 as sheepmen continue to respond to the bright outlook for lambs. As a result, sheep and lamb slaughter next year is expected to be down moderately. Lamb prices, which increased substantially in 1964, continued to rise in 1965 and will average about 10-12 percent above the \$19.90 per 100 pounds received by farmers last year. Lamb prices next year will continue strong and average above 1965 levels. However, most of the increase likely will occur during the first part of the year because of moderately smaller lamb supplies and substantially smaller pork supplies. Later, lamb prices are expected to average about the same to only slightly higher than 1965 levels because of a slight increase in total beef supplies and substantially more broilers. However, if producers decide to hold back large numbers of ewe lambs next year, prices next summer and fall will continue quite strong.

CONSUMPTION AND RETAIL PRICES

Red meat consumption this year is expected to decline about 6-7 pounds per person from the record 175 pounds last year. This is due almost entirely to the decline in pork production. Per capita consumption of pork will average around 60 pounds this year, down 5 pounds from 1964. In addition, per capita consumption of beef and veal is expected to be down about 1 pound from the 105 pounds last year. Consumption of lamb and mutton is expected to average less than 4 pounds, down nearly half a pound from 1964 and the lowest on record.

A further decline in consumption is expected next year. Although meat imports likely will go up slightly, they probably will not offset the expected decline in domestic output. As a result, per capita consumption of red meats in 1966 is expected to total around 4-5 percent below the estimated 168 pounds this year. As in 1965, pork will account for most of the decline. However, increases in poultry consumption will be partially offsetting.

Retail meat prices rose sharply in 1965 in response to smaller supplies and strong consumer demand. The BLS index of retail prices likely will average around 107 this year, a record high and up sharply from 99.4 last year. Retail prices are expected to rise again in 1966 because of further reductions in supplies. Pork prices at retail are expected to show the largest rise, as per capita supplies decline another 4-5 percent.





UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

RELATION OF FAMILY INCOME AND EXPENDITURES TO NUMBER
OF FULL-TIME EARNERS

Talk by Emma G. Holmes

Consumer and Food Economics Research Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 3:30 P.M., Tuesday, November 16, 1965

Mrs. Keyserling has described the important role of women in the U.S. labor force. This applies particularly to married women, so many of whom have added to their regular job of homemaker the responsibility of supplementing the family income by working in paid employment. The multiple-earner family holds an important place in the American economy, and indications are that it will continue to do so.

Information about what happens to family incomes and expenditures when additional members become earners is of considerable interest because of its implications for family money management. We have some information on this point from the Survey of Consumer Expenditures in 1960 and 1961, a cooperative study of the U. S. Department of Agriculture and the Bureau of Labor Statistics of the U. S. Department of Labor. Data from this survey have been tabulated for families with 1, 2, and 3 or more full-time earners, and for those with none. Family members were considered full-time earners if they were employed in a wage or salary occupation for at least 48 weeks of 35 hours or more; held a job where customary full-time employment is less than that amount, such as school teaching; or operated a farm all year. Those who were self-employed in an unincorporated business or profession were counted full-time earners regardless of amount of working time. "Families" in this study included single individuals as well as groups of two or more persons living together--that is, they were what is sometimes called "consumer units."

The distribution of families by number of full-time earners in 1961 was as follows:

Number of full-time earners:	Percent of families		
	Urban	Rural nonfarm	Farm
None	31	42	6
One	57	50	76
Two	11	8	15
Three or more	1	1	3

I have omitted the families with no full-time earners from this analysis because they were such a heterogeneous group, made up of some that were retired, some without paid employment for other reasons, and some with members who worked but not enough to qualify as full-time earners. Most important

numerically in each area were the families with one full-time earner. Those with two full-time earners were a considerably smaller group, and only a few families had three or more members with full-time jobs. We know from Census Bureau reports that many of the families with full-time workers must also have had members who worked part time, but tabulations available from the Survey of Consumer Expenditures do not enable us to identify these.

It seems safe to assume that in most of the families with one full-time earner this person was the male head of the family. In those with two or more workers one was likely to be the male head, the others his wife, sons, daughters, and occasionally other relatives living in the household. Census data show that about 34 percent of all urban wives were in the labor force in 1961, though not all of these were full-time workers.

Most of the information I will present today is based on data obtained from urban families. I have selected these rather than the rural nonfarm or farm families because the urban sample was considerably larger than the others, and therefore most suitable for this type of analysis. Some of the urban families were interviewed early in 1961 and some in 1962. They reported on their incomes and expenditures during the calendar year preceding the time of the interview. The rural nonfarm and farm families were all interviewed early in 1962 about income and expenditures in 1961.

Income

As additional full-time earners joined the family work force family incomes increased, but by amounts less than proportional to the added number of workers. Urban family income after taxes averaged \$6,570 with one full-time earner, \$8,900 with two, and \$11,840 with three or more. 1/ The families with 2 earners averaged 35 percent more income than those with 1 earner received, and the families with 3 or more earners averaged 80 percent more than the 1-earner group.

The relatively small difference between the average income of the families with only one full-time earner and that of the families with more than one can be explained in several ways: (1) The second and additional full-time earners probably received smaller average incomes than the primary breadwinner. Women, young people, the elderly, and others likely to be secondary earners in a family usually receive less because they have less training or experience or work in lower-paying occupations. (2) The families with only one full-time earner undoubtedly had more members with part-time work during the year. We know, for example, that many wives who do not work full-time do have part-time jobs. A job at less than full-time work could add substantially to the family purse. (3) The husbands or other primary full-time earners in the families

1/ All dollar amounts in this report are rounded to the nearest \$10.

with two or more jobholders probably had a lower average income than the husbands who were the only full-time workers in the family. The thing that brings many wives into paid employment, according to various studies, is the fact that their husbands do not earn enough to meet all the family's needs.

Incomes of the rural nonfarm and farm families followed the same general pattern as the urban, but at a lower level. Their average money incomes after taxes in 1961 were as follows:

	<u>Average money income after taxes</u>	
	<u>Rural nonfarm families</u>	<u>Farm families</u>
Number of full-time earners:		
One	\$5,750	\$4,320
Two	7,570	5,450
Three or more	10,400	6,690

As compared with the 1-earner families, those with 2 full-time earners had money incomes averaging 32 percent higher in rural nonfarm and 26 percent higher in farm areas. The families with 3 or more earners had incomes 80 and 55 percent higher, respectively, than the 1-earner families in these areas.

Money outlays

As we might expect when we see these increases in income, spending for current consumption, personal insurance, and gifts and contributions--as well as savings^{2/}--all increased as the number of full-time earners increased (see table). What we are more interested in knowing, however, is how the various outlays differed among families at the same income level but with different numbers of earners. We have prepared a series of charts to compare the expenditures of families with 1 and 2 full-time earners at 4 levels of income in 1960-61. The groups with less than \$5,000 and with \$15,000 or more were omitted because the number of 1- or 2-earner families--or both--at these levels was too small to make comparisons meaningful. Families with three or more earners were also omitted because of the small number in the sample.

It will be helpful to know something about the characteristics of the families represented before looking at the charts. At each income level shown, the families with 1 full-time earner were a little younger than those with 2--by from 1 to 4 years. They were also a little larger--by an average of only .1 person in the lowest income group but by .5 person in the two highest groups. At each income level the 1-earner families had more children under 18 years of age, and the 2-earner families had more adults. The differences in family size and composition are reflected in some expenditures, as we shall see. The 1-earner group also included a smaller proportion of nonwhite families, and had a little more schooling.

^{2/} "Savings" in this study refers to the net change in the assets and liabilities of the family during the year.

Food expenditures.--As we might expect, expenditures for food bought and eaten away from home increased when there were two full-time earners instead of one. Our studies of employed wives in a city in Ohio and one in North Carolina showed that about 8 out of every 10 employed wives in the former and 9 out of 10 in the latter had some expense for food at work during the year, and that the average expenditure for meals and snacks at work for the employed wives as a whole was about \$80 a year. The Consumer Expenditure Survey data show that a second full-time earner in the family increased average spending for food away from home by about \$30 a year in the \$5,000-to-\$6,000 income group, and by \$120 in the highest income group represented on the chart (chart 1).

Unlike spending for food away from home, that for food at home was higher in 1- than 2-earner families (chart 2). Total food expenditures were also somewhat higher in the 1-earner families, except at the \$10,000-\$15,000 level. There the larger expenditure of 2-earner families for food away from home brought their total expense above that of the 1-earner group (chart 3).

Recalling that the families with one full-time earner were larger than those with two, especially in the higher income groups, let's see how they compare in expenditure for food for each person. The 2-earner families spent more per family member except at the \$5,000-\$6,000 income level, and the difference increased with income (chart 4). The larger amounts these families spent for each member probably reflects in part the fact that they had more adults to feed, as well as their higher expenditures for meals away from home.

Expenditures for housing.--The amount spent for shelter, including rent or ownership costs of the housing unit plus fuel and utilities, was somewhat lower for families with two than for those with one full-time earner at each income level (chart 5). In fact, the 2-earner families seem to have made expenditures for shelter that were more like those of the 1-earner families at the next lower income level. This seemingly strange pattern of less rather than more money allocated to shelter when there was a second full-time worker in the family is undoubtedly related to the lack of confidence many of these families must have had that they would continue to receive the second income. Workers other than the primary breadwinner in a family are frequently only temporary earners. Wives tend to move into and out of the labor force as family conditions or employment opportunities change, and employed sons and daughters now living at home are likely to be off on their own in a year or two. Moreover, the earnings of sons and daughters, though they add to the total money received by the family, do not usually become a part of the general family purse, for young people usually manage their own incomes. Families are not likely to buy a more expensive home or move to a more luxurious apartment on the strength of a temporary and uncertain increase in income.

Expenditures for home furnishings and equipment showed no consistent difference for 1- and 2-earner families. Spending for these items by 2-earner families varied from somewhat less, to about the same, to more than that of the 1-earner families at the same level (chart 6). However, the data indicate that the 2-earner families did use some of their additional income to buy household durables, since their expenditure at each income level is higher than that of the 1-earner families at the next lower level.

Clothing expenditures.--Clothing, clothing materials, and clothing services took larger amounts of the income in 2-earner than in 1-earner families at each income level (chart 7). Moreover, spending per person for clothing was higher in the families with two full-time workers (chart 8). Our studies of employed wives showed that the wives spent more for their own clothing when they were jobholders than when they were full-time homemakers. Sometimes they had to buy special work clothing for use on the job. They also increased their spending for general-wear clothing, perhaps because they had to have more changes of clothing, different types of garments, or chose more expensive clothing than they would otherwise have had. It seems likely that an employed wife will spend more for clothing for other members of her family too, because she lacks time for sewing and mending. When sons and daughters are the additional full-time earners in a family, more money for clothing is to be expected, too, since young people tend to spend freely on their wardrobes.

Transportation costs.--Another major expense--and one that goes higher the more earners there are in the family--is that for transportation. Amounts spent for transportation by the urban families were higher in families with two than with one full-time earner at every income level (chart 9). Most of this expense is for the purchase, maintenance, and operation of automobiles.

Higher spending for transportation by multiple-earner families is not surprising, since getting to and from work is an item of expense for most urban workers whether they use their own car or public transportation. About three-fourths of the employed wives in our studies in urban areas in Ohio and North Carolina reported some expense for transportation to and from work, and it was a substantial amount for the average woman. When a second or third member of a family takes a job it frequently triggers the purchase of a second or third car--by a better first car, at least--whether it is needed for getting to work or just to upgrade the level of living. When the additional worker is a young son or daughter, especially, a car of his own is usually at the very top of the list of things to be bought when the paychecks begin to come. The data we have for families with 3 or more full-time earners from the Consumer Expenditure Study indicate that their spending for transportation far exceeds that of the 1- and 2-earner families in the same income group.

Other expenditures.--The families with one full-time earner spent more for medical care than those with two (chart 10). However, family size accounted for most of the difference, since expense per person was about the same. Expenditures for recreation, reading, and education combined were about the same for 1- and 2-earner families at each level.

Spending patterns

How do the varying dollar expenditures of families with different numbers of full-time earners affect their spending patterns--that is, the percentage distribution of the family dollar among the several items of the budget? At each income level they resulted in a somewhat smaller percentage of the dollar going for shelter in the 2-earner families, a larger percentage for transportation, and a larger percentage for clothing. At the \$7,500-\$9,999 income level, for example, shelter took about 16 percent of the dollar in families with 2 earners and 17 percent in those with one. Transportation took about 17 and 16 percent, and clothing 12 and 11 percent in the respective groups. Food away from home took about 1 percentage point of the dollar of 2- than 1-earner families at each level. Variations for other budget categories were minor or in different directions at different income levels.

Conclusion and outlook

In the comparisons we have been making of families with 1 and 2 full-time earners, both had approximately the same average income and spent approximately the same average amount for total consumption--though they made a different division of this total among the budget items. As I mentioned earlier, however, when all 2-earner families are compared with all 1-earner families the 2-earner group has the higher average income and the higher average expenditure for current living. Moreover, they spend the larger average amount for each of the major categories of goods and services in the budget.

In general, the same types of variations we have noted in the spending of 1- and multiple-earner urban families seem to apply to the rural nonfarm and farm families. Data for these families are included in publications listed at the end of this paper.

Part of the credit for the remarkable rise in family incomes and levels of consumption during the past 50 years or so is given to the increased number of married women working outside the home. In a report of changing incomes and expenditures the Bureau of Labor Statistics

states "Apparently the wife's added contributions to the family income have more than offset the loss of earnings due to the later entrance of children into the labor force." 3/ Since the participation of wives in the labor force continues to edge up year by year it looks as though the multiple-earner family will become increasingly important as time goes on.

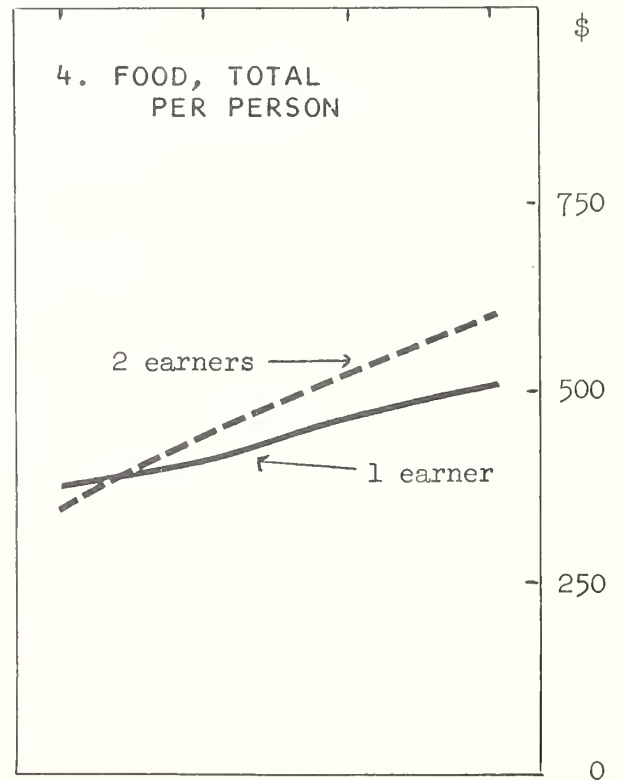
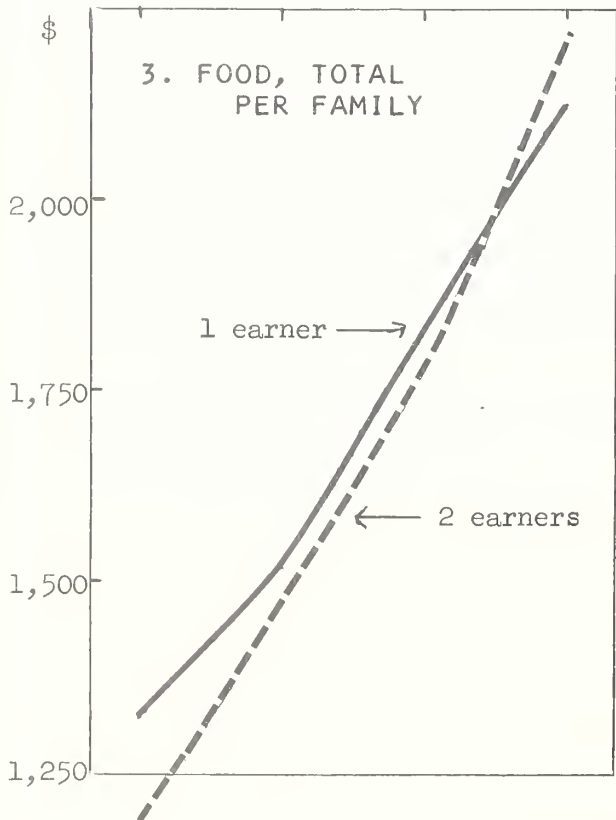
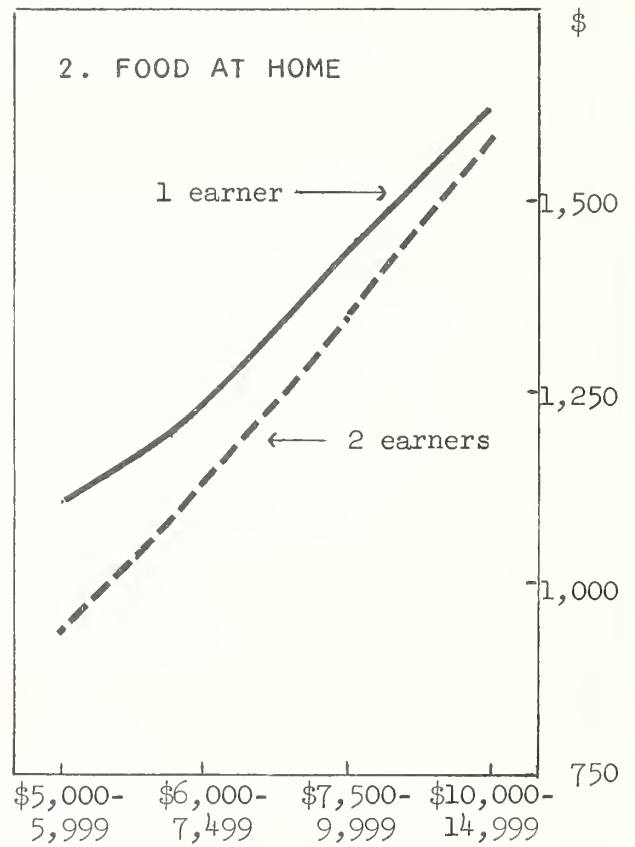
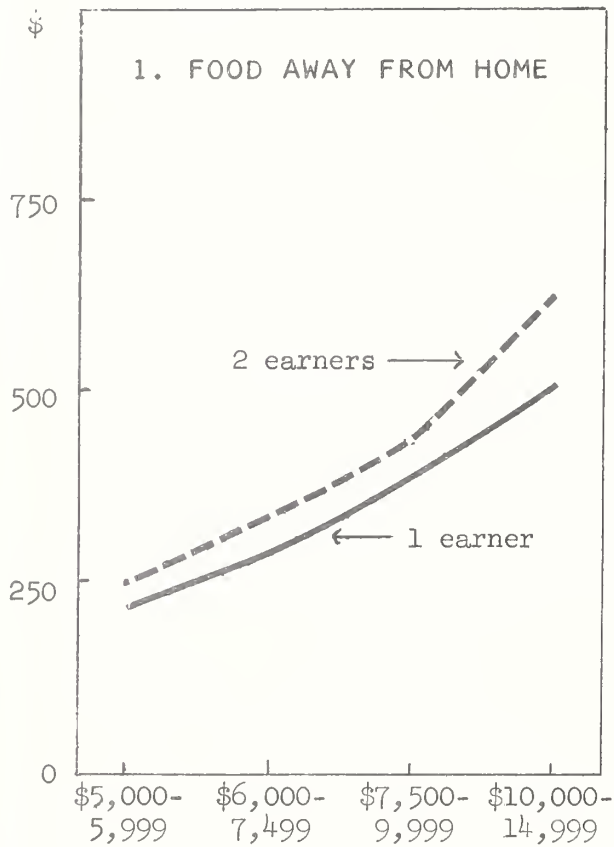
More data available

Data comparable to that given in the table (page 11) for all U. S. urban families are also available for urban families in each of the four regions, and for rural nonfarm and farm families in the United States and each region. Data for families with 3 or more full-time earners and no earners are also given. The publications are listed below. Those reporting urban data may be obtained from the Bureau of Labor Statistics, U. S. Department of Labor, Washington, D. C. 20212. Those giving rural nonfarm and farm data can be ordered from the Consumer and Food Economics Research Division, U. S. Department of Agriculture, Federal Center Building, Hyattsville, Maryland 20781.

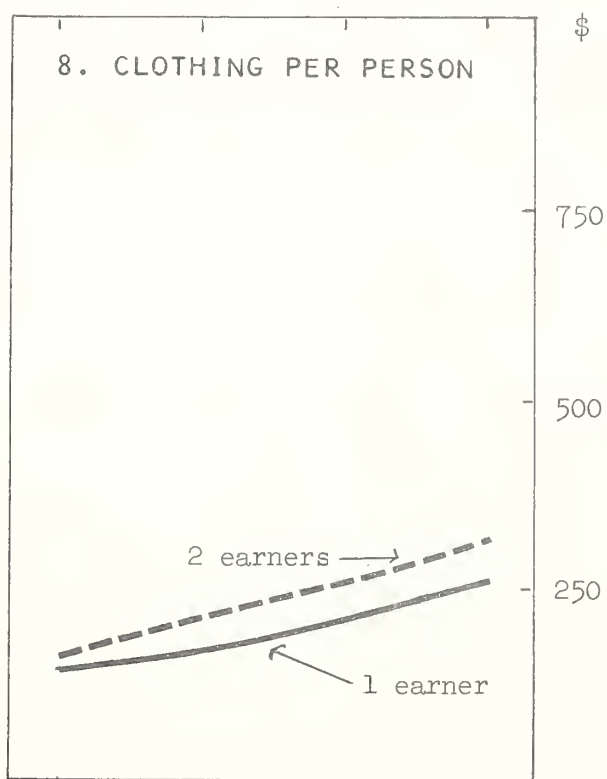
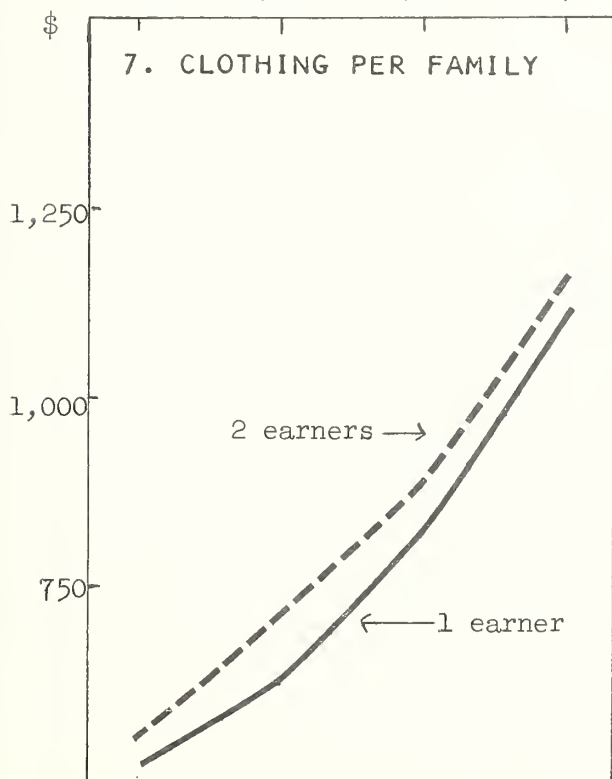
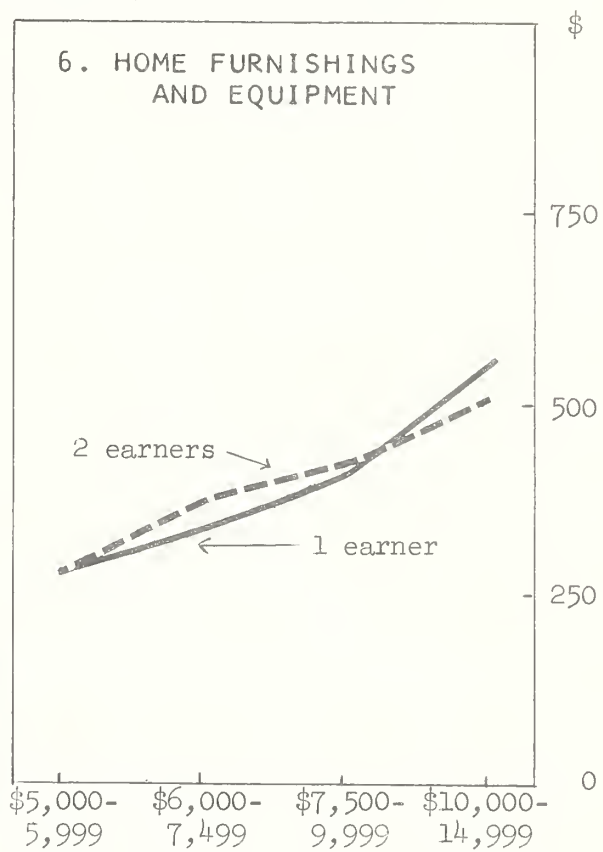
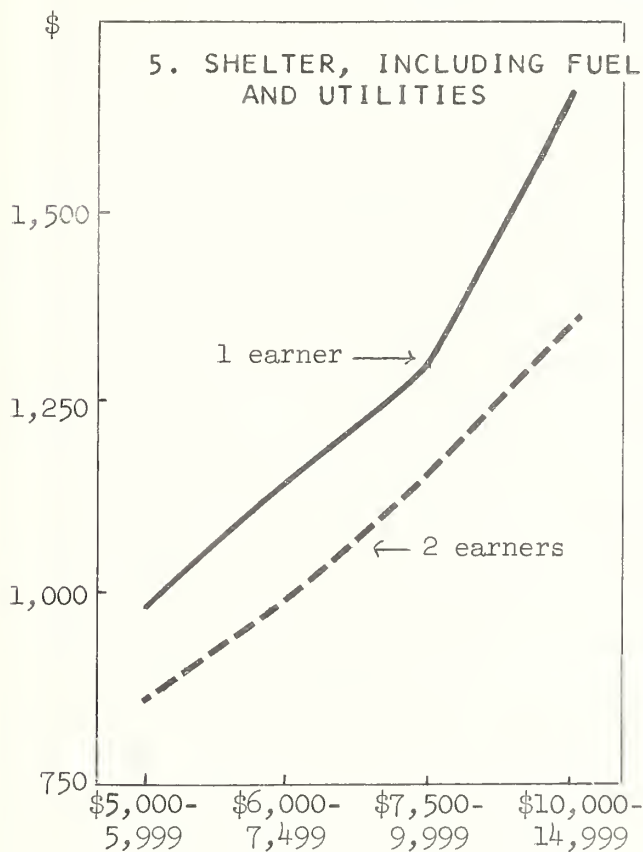
Area	<u>Urban (1960-61)</u>	<u>Rural Nonfarm (1961)</u>	<u>Farm (1961)</u>
	Supplement 2-Part A to BLS Report No.--	USDA-CES Report No.--	USDA-CES Report No.--
United States	237-38	25	20
Northeast Region	237-34	21	16
North Central Region	237-35	22	17
Southern Region	237-36	23	18
Western Region	237-37	24	19

3/ How American Buying Habits Change. U. S. Department of Labor, 1959, p. 28.

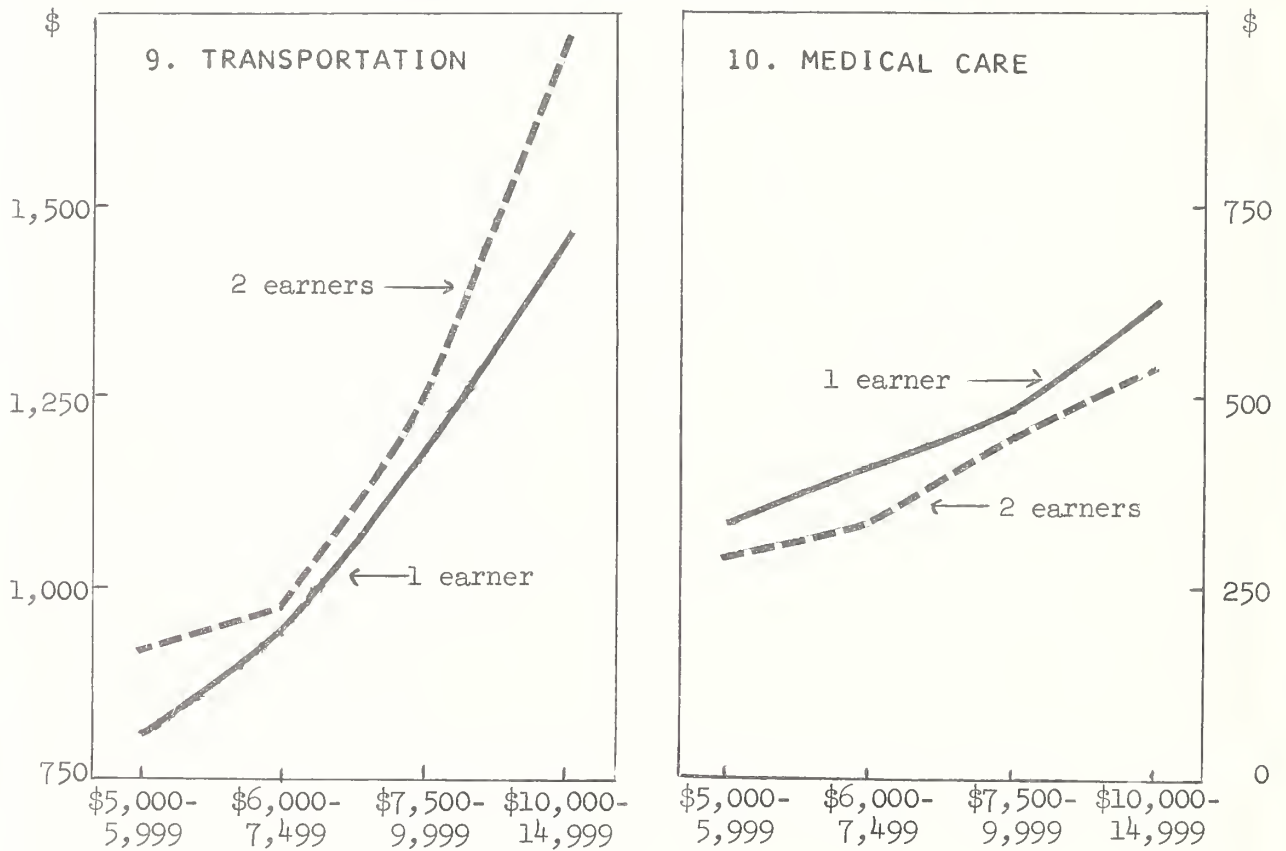
EXPENDITURES FOR CURRENT CONSUMPTION
URBAN FAMILIES WITH 1 AND 2 FULL-TIME EARNERS
SELECTED INCOME GROUPS, 1960-61



EXPENDITURES FOR CURRENT CONSUMPTION
URBAN FAMILIES WITH 1 AND 2 FULL-TIME EARNERS
SELECTED INCOME GROUPS, 1960-61 (CONT.)



EXPENDITURES FOR CURRENT CONSUMPTION
URBAN FAMILIES WITH 1 AND 2 FULL-TIME EARNERS
SELECTED INCOME GROUPS, 1960-61 (CONT.)



Source: Supplement 2-Part A to BLS Report 237-38, pages 73, 74.

Average expenditures, income, and savings of urban families with one and two full-time earners, United States and selected income groups, 1960-61

Item	Money income after taxes									
	All ^{1/}		\$5,000-\$5,999		\$6,000-\$7,499		\$7,500-\$9,999		\$10,000-\$14,999	
	One earner	Two earner	One earner	Two earner	One earner	Two earner	One earner	Two earner	One earner	Two earner
Family characteristics										
Average size of family.....	3.4	3.4	3.5	3.4	3.7	3.3	3.9	3.4	4.2	3.7
Average number of children under 18 years.....	1.4	1.0	1.5	1.1	1.6	.9	1.7	1.0	1.9	1.0
Average number of adults.....	2.0	2.4	2.0	2.3	2.1	2.4	2.2	2.4	2.3	2.7
Average age of head.....	43	46	41	42	42	44	43	45	44	48
Average education of head (yrs.)	11	11	11	9	12	11	12	11	14	12
Percent nonwhite.....	10	11	9	18	6	13	4	7	2	6
Percent homeowners, all year...	55	65	53	38	65	63	70	67	81	75
Percent auto owners, end of year.....	82	92	87	93	91	87	94	93	98	95
Average income, savings, and expenditures										
Money income after taxes.....	\$6,572	\$8,895	\$5,504	\$5,539	\$6,676	\$6,885	\$8,531	\$8,703	\$11,699	\$11,670
Other money receipts.....	75	52	84	52	59	34	43	38	102	75
Savings (net change in assets and liabilities).....	241	543	31	91	128	172	373	526	896	842
Disbursements										
Personal insurance.....	384	564	321	323	400	396	513	556	684	772
Gifts and contributions.....	335	425	257	232	306	298	427	353	606	657
Expenditures for current consumption.....	5,948	7,544	5,238	5,038	6,211	6,132	7,570	7,481	9,815	9,576
Food, total.....	1,433	1,767	1,326	1,190	1,519	1,477	1,830	1,788	2,128	2,212
Food at home.....	1,130	1,310	1,106	939	1,231	1,139	1,439	1,353	1,621	1,586
Food away from home.....	303	457	220	251	288	338	391	435	507	626
Tobacco and alcoholic beverages.....	206	261	195	174	223	237	261	258	292	323
Housing, total.....	1,743	2,012	1,535	1,439	1,819	1,723	2,124	1,982	2,844	2,402
Shelter, including fuel, etc.	1,082	1,154	979	855	1,145	990	1,299	1,156	1,655	1,357
Household operations.....	346	445	279	313	338	363	421	408	638	539
Housefurnishings and equipment.....	315	413	277	271	336	370	404	418	551	506
Clothing, clothing materials, services.....	625	892	519	554	629	717	829	887	1,112	1,172
Personal care.....	171	221	160	164	174	193	213	223	259	265
Medical care.....	377	442	333	293	411	334	480	452	621	540
Recreation, reading, education.....	373	506	276	251	375	362	490	496	805	739
Transportation.....	892	1,284	809	915	939	978	1,186	1,250	1,482	1,724
Other expenditures.....	128	159	85	58	122	111	157	145	272	199
Percent distribution	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.
Expenditures for current consumption.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food, total.....	24.1	23.4	25.3	23.6	24.5	24.1	24.2	23.9	21.7	23.1
Food at home.....	19.0	17.4	21.1	18.6	19.8	18.6	19.0	18.1	16.5	16.6
Food away from home.....	5.1	6.1	4.2	5.0	4.6	5.5	5.2	5.8	5.2	6.5
Tobacco and alcoholic beverages.....	3.5	3.5	3.7	3.5	3.6	3.9	3.4	3.4	3.0	3.4
Housing, total.....	29.3	26.7	29.3	28.5	29.3	28.1	28.1	26.5	29.0	25.1
Shelter, including fuel, etc.	18.2	15.3	18.7	17.0	18.4	16.1	17.2	15.5	16.9	14.2
Household operations.....	5.8	5.9	5.3	6.2	5.4	5.9	5.6	5.5	6.5	5.6
Housefurnishings and equipment.....	5.3	5.5	5.3	5.4	5.4	6.0	5.3	5.6	5.6	5.3
Clothing, clothing materials, services.....	10.5	11.8	9.9	11.0	10.1	11.7	11.0	11.9	11.3	12.2
Personal care.....	2.9	2.9	3.1	3.3	2.8	3.1	2.8	3.0	2.6	2.8
Medical care.....	6.3	5.9	6.4	5.8	6.6	5.4	6.3	6.0	6.3	5.6
Recreation, reading, education.....	6.3	6.7	5.3	5.0	6.0	5.9	6.5	6.6	8.2	7.7
Transportation.....	15.0	17.0	15.4	18.2	15.1	15.9	15.7	16.7	15.1	18.0
Other expenditures.....	2.2	2.1	1.6	1.2	2.0	1.8	2.1	1.9	2.8	2.1

^{1/} Includes families in groups with income (after taxes) under \$5,000 and \$15,000 and over, not shown separately. Source: Supplement 2-Part A to BLS Report 237-38, pages 73, 74.



UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR FEED IN 1966

Talk by Malcolm Clough
Economic and Statistical Analysis Division
at the 43rd Annual Agricultural Outlook Conference
Washington, D.C., 1:30 P.M., Tuesday, November 16, 1965

Farmers this year have produced a record tonnage of feed grains on a slightly smaller acreage than in 1964. The big crops more than offset the smaller carryover from last year, raising the feed grain supply about 5 percent over 1964-65. The larger crops, plus a prospective increase in supplies of high-protein feeds, especially soybean meal, are expected to result in lower prices of feed grains and high-protein feeds in 1965-66. Livestock-feed price ratios are expected to be generally more favorable than during the past 2 or 3 years. This, along with the lower quality corn in the Corn Belt, probably will mean heavier domestic use. Exports have been trending upward and are expected to increase again in 1965-66. Even so, this year's production probably will exceed total utilization, and carryover at the close of the marketing year may be up by 5 million tons to around 60 million tons.

Weather this year has been more favorable than in most recent years for hay and forage crops. Pastures and ranges have been better than average in nearly all areas of the country. The 1965 hay crop, totaling 123 million tons, is about 6 million tons larger than last year and a little above the previous record crop in 1962. The big crop this year, together with generally good pastures and ranges this fall, will provide ample forage supplies for the livestock in most areas of the country. The major exception is the Northeast where hay supplies are 14 percent below average.

The Feed Grain Program, which played an important role in the feed situation during the past 4 years, will continue to influence feed grain supplies, utilization, and prices in 1966 and the years beyond. The Food and Agricultural Act of 1965, recently passed by Congress, will have an important bearing on the outlook for feed during the next 4 or 5 years. The Act provides for a feed grain program for 1966 through 1969, that is similar to the programs in effect during the last 5 years. More latitude in determining program provisions is provided the Secretary, including authority to vary the price support payments and to pay price support payments on all or part of the permitted acreage of participants. The Secretary is also authorized to permit substitution between wheat and feed grains, the planting of certain crops on diverted acreage and soybeans on permitted feed grain acreage without loss of price support payments.

The 1965-66 feed grain supply is estimated at 217 million tons on the basis of October indications, 10 million tons larger than last year, but about 5 million tons below the 1959-63 average. Feed grain production increased to a

record high of 161 million tons this year, 24 million more than the short crop in 1964. The carryover into 1965-66 of about 55 million tons, was 14 million smaller than a year earlier. Government stocks, totaling about 43 million tons, were down 13 million, while "free" stocks of 12 million tons were 1 million less.

The gain in production was due entirely to a big rise in yields per acre, since harvested acreage of feed grains was about 1 percent lower than in 1964 and the smallest in more than 70 years. The average yield of the 4 feed grains increased to 1.62 tons per acre, 18 percent higher than last year and 11 percent above the previous record yield in 1963. Yields of each of the 4 feed grains reached new highs. This brought the combined feed grain yield back in line with the upward trend of about 5 percent annually during 1954-63.

Total disappearance of feed grains is expected to increase in 1965-66. Lower feed grain prices, more favorable livestock-feed price ratios, and the lower quality of corn in some areas of the Corn Belt are expected to result in an increase of about 3 percent in domestic consumption. Exports are expected to increase further in 1965-66, probably by 2 million tons, to a record high of over 23 million tons. Total disappearance is now expected to be around 157 million tons, about 5 or 6 million more than in 1964-65. However, this would be about 5 million tons below the record feed grain production this year, increasing carryover into 1966-67 to around 60 million tons. This would be 5 million more than a year earlier, but about 25 million below the record carryover into 1961-62.

The 1965 corn crop was estimated in October at close to 4.2 billion bushels, more than 600 million above the short crop of 1964. Even with the 25 percent reduction in carryover, the 1965-66 supply is 5 percent larger than in 1964-65. Heavier domestic use and increased exports of corn are in prospect for 1965-66. Total disappearance probably will increase to a little over 4 billion bushels. The record 1965 crop, however, is expected to exceed total disappearance by 100 million bushels or so, resulting in an increase in carryover to nearly 1.3 billion bushels. Although this would be about 10 percent above a year earlier, it would still be well below the 2-billion-bushel carryover of 4 years ago.

The total supply of sorghum grains for 1965-66 was estimated in October at 1,221 million bushels, 82 million more than a year earlier but a little below the record supply of 2 years ago. Sorghum grain stocks have declined in the past 4 years, but the reduction has been much less than for corn. The carryover into 1965-66 was 13 percent below a year earlier and nearly 20 percent below the record carryover in 1961. Domestic use and exports of sorghum grain have been expanding in recent years and have exceeded total production in each of the past 4 years, although by a relatively small margin. The big 1965 crop is expected to be a little above total use, resulting in a small increase in carryover stocks at the close of the 1965-66 marketing year.

The oat supply is estimated at 1,281 million bushels, 80 million more than last year. The 13 percent increase in production this year halted the downward

trend in supplies of the past 6 years. While oat production has been declining since 1955, total utilization also has declined, and there has been little net change in carryover. Larger domestic use and exports are in prospect for 1965-66. Even with larger disappearance this year, the big crop probably will result in some increase in the carryover on July 1, 1966.

The barley supply is estimated at 525 million bushels, about 4 percent less than last year and the smallest since 1956. Barley production has trended generally downward for the last 5 or 6 years and has been below utilization in 4 out of the last 5 years. This has resulted in a decline in barley stocks from 190 million bushels in 1959 to about 100 million bushels on July 1 this year. The barley carryover is expected to remain at this level at the close of the 1965-66 marketing year.

Feed grain prices are expected to average a little lower in 1965-66 than in 1964-65, principally because of the larger feed grain crops, but also due in part to the lower 1965 loan rates and lower quality corn in the Corn Belt. Corn prices have moved generally upward during the past 4 years. The season average price for 1964-65 was \$1.16 per bushel, about 16 cents higher than the postwar low in 1960-61. Corn prices have been above the loan rate during most of the 1963-64 and 1964-65 marketing years. The total price support for 1965 corn is \$1.25 per bushel, the same as last year. The price support payment, however, was increased to 20 cents per bushel, 5 cents higher than last year, and the loan rate was reduced 5 cents to \$1.05 per bushel. Corn prices have declined sharply this fall with the harvesting of the record 1965 crop. While some seasonal rise is in prospect this winter and spring, corn prices probably will average somewhat below the 1964-65 level. Last year, production was below total requirements and prices rose to the CCC sales price level in the last half of the marketing year. With the much larger crop this year, much less corn is expected to be sold by CCC, and prices are not expected to advance with the CCC sale price as they did in 1964-65.

Sorghum grain prices also have declined with the harvesting of the 1965 crop, and in 1965-66 they are expected to average well below the 1964-65 level. They probably also will be lower than last year in relation to corn. Prices of oats and barley, which were unusually high in relation to corn in 1961-62, declined in relation to corn during the past 2 years. In 1964-65, prices of these grains were nearer the 10-year average in relation to corn prices. Oat prices may average a little below a year earlier this winter and spring, while barley may average slightly higher and also above average in relation to prices of other grains.

The lower feed prices in 1965-66 are expected to be accompanied by higher livestock prices, resulting in generally favorable livestock-feed price ratios. Much of the increase in livestock prices during the past year was in prices of hogs and cattle, which boosted the index of meat animal prices to nearly 25 percent higher than a year earlier. With more favorable livestock-feed price ratios in prospect, the feeding rate per animal unit probably will increase to a record high in 1965-66.

The total tonnage of high-protein feed available for feeding is expected to be about 3 percent larger than in 1964-65. This increase will be principally in soybean meal. The quantity of soybean meal consumed by livestock increased steadily from 1953-54 to 1962-63. During the past 2 years, the tonnage consumed has been a little below the record quantity fed in 1962-63. Prices in this period have been comparatively stable, averaging close to \$71.00 per ton at Decatur. With the larger supply of soybean meal in prospect for 1965-66, soybean meal prices may average somewhat below the 1964-65 level.

Soybean meal prices have advanced in relation to prices of most other protein feeds during the past 10 years. The price of cottonseed meal in 1964-65 was about 13 percent lower than soybean meal, when compared on the basis of the 1954-63 average, and the price of gluten feed was 9 percent below soybean meal. Meat meal prices were about 14 percent below soybean meal, while fish meal was about the same as the 10-year average relationship. With the relatively larger supplies of soybean meal, soybean meal prices in 1965-66 probably will be nearer the 10-year average in relation to other protein feeds.

Exports of feed grains, which have trended upward for several years are expected to rise again in 1965-66, probably exceeding the 21.6 million tons in the 1964-65 marketing year by around 2 million tons. Much of the increase in exports in recent years has been in corn and sorghum grain, which reached record highs in 1964-65. Exports of corn in 1965-66 are expected to rise to around 625 million bushels, 10 percent higher than in 1964-65. Sorghum grain exports are expected to at least equal, if not exceed, the record high of 148 million bushels in 1964-65. Oat exports, which have declined in recent years, increased sharply this summer. The total for 1965-66 is expected to be much larger than the 5 million bushels last year, while barley exports may be a little smaller.

The increase in demand for feed in Western Europe and Japan has been largely responsible for the marked increase in feed grain exports in the last 10 years. A recent survey by the Foreign Agricultural Service shows that commercially mixed feed production in Western Europe about doubled from 1957 to 1963. Mixed feed production in Japan went up nearly 400 percent. These marked increases indicate the substantial rise in the demand for livestock food products resulting from the rapid economic growth in these countries. Prospects continue generally favorable for U. S. feed grain exports in the years ahead.

THE RURAL ECONOMY--INTERRELATIONSHIPS, EMERGING ISSUES, AND PROBLEMS

Talk by James T. Bonnen, Associate Professor
Department of Agricultural Economics, Michigan State University
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 10:20 A.M., Tuesday, November 16, 1965

In mid-nineteenth century America, rural life meant farm life. There was very little economic activity then in rural America beside that generated by farming. Of the total U.S. population in 1865, three-fourths was rural and practically all of that was on farms. One hundred years later less than 30 percent of our population is rural. And, today, as a result of the economic development of agriculture and the creation of other industries in rural America, farmers and their families account for less than one-fourth of the rural population.

The economic development of rural America has led to a division of rural life into the materially successful and the unsuccessful. The successful in rural life include:

1. The families in commercial agriculture with gross incomes, say, of over \$10,000.
2. Plus those with decent incomes generated by the commercial and service industries associated with agriculture.
3. A growing number of rural families earning reasonably good incomes in very diverse types of non-agricultural commercial and industrial employment. In many cases, these rural income earners commute substantial distances to their jobs, many even to urban jobs. Some are part-time farmers.
4. Also, in a sense we have to count among the successful of rural life those who, as a consequence of having sufficient advantages including an adequate education, were able to leave rural life for good incomes in urban life.

Among the materially unsuccessful in rural life are numbered:

1. The marginal, low income (including some so-called commercial) farm operators, farm laborers, and their families.
2. Those rural residents who because of poor health or poor education or other reasons have a productive capacity so low that they are equally incapable of earning a decent living in farming or in a nonfarm rural job or in urban employment.

3. Some of these people with an inadequate preparation for productive employment, as well as most other of life's challenges, nevertheless have successfully removed themselves to the city from rural life to become a substantial part of the urban poor. The inadequately prepared Negro whose options within rural life are further limited by racial discrimination is most often found in this group. In a sense these people, while no longer rural residents, also constitute a portion of the unsuccessful of rural life.

The materially unsuccessful, the poor, of rural life are poor usually because of a combination of things; wrong personal decisions they have made, or poor public decisions their communities have made in education, health, or resource development, or simply because they and their communities were bypassed in the historical processes of economic growth.

In any case, whatever the reasons, and wherever you draw the income line between the successful and the unsuccessful, the proportion of poor, disadvantaged, and culturally deprived in rural life far exceeds that of urban communities. Thirty-two percent of all rural people, including over 40 percent of all farm families, in 1959 had money incomes under \$3,000 in contrast to 16 percent of all urban people. ^{1/} One is forced to conclude that rural communities, generation after generation, have failed their children badly.

Over the course of this century, income in the United States has grown to be more equally distributed--the proceeds of growth are now more widely shared. This appears to be a necessity in the later stages of development or modern industrial societies where a mass base for consumption is necessary to sustain further growth. However, in rural life if the distribution of income has grown to be more equal it has done so at a painfully slow rate. Some argue that it has actually grown to be less equitably distributed. In any case the evidence except for more recent years is sketchy. What is clear from this data, as well as the related poverty statistics, is that rural income is far less equitably distributed than urban income. There has been rapid economic growth in much of rural life, but the ability and opportunity to participate in growth has not been as widely distributed in rural life as in the rest of society. Somewhere in making social policy for rural life we

^{1/} 1959 is the most recent year in which the Census provides this data on the basis of rural and urban residence. It should be noted that if these money income measures were adjusted to a real income basis the difference between rural and urban would narrow somewhat. For source of data, see the Annual Report of the Council of Economic Advisers, 1964, p. 61.

have failed. For the most part, we have no one to blame but ourselves, for most of the responsibility in these matters has rested in the hands of rural decision makers.

The education, health, and welfare services available to rural people are significantly inferior to those available in urban life. The institutions that sustain these services in rural life are generally inferior to similar urban organizations. The agricultural fundamentalist who holds a mystical belief in the superiority of rural life will have to look elsewhere than to these rural institutions for objective evidence to sustain his beliefs.

Farmers and rural people have been very slow to see the importance of many of the major social investments that this society has made in the last hundred years and have come to support many of these only very belatedly. It has been pointed out repeatedly that the behavior of rural people, and the public policy of agriculture, imply a materialistic bias in favor of plants, land, and animals and against people. ^{2/} This is evident in the manner in which rural communities manage their affairs. It is evident in our farm programs which are specifically designed to do things to improve the value of plants, land, and animals. Even from the point of view solely of the farmers' welfare--to say nothing of the rest of the rural community or society as a whole--we have under-invested in rural health, education, and the other social services which develop the potential and productivity of people. It is hardly surprising that the primary result of our rural public investment policy has been an inflation in farm and rural asset values while the returns to the human factor in rural life have fallen further and further behind that of the urban community.

Here is something I encountered just last week:

"The action programs relating to agriculture are primarily attached to the physical resources in agriculture rather than to human resources. They attempt to improve or maintain the land resources, increase the amounts of available capital resources or strengthen the prices of their products....Old-age pensions are virtually the only subventions attached to the individual rather than the resources." ^{3/}

^{2/} Charles S. Murphy, "Farm Policy Issues for the Years Ahead," USDA Annual Outlook Conference, Washington, D.C., November 16, 1964. See also T. W. Schultz, "Underinvestment in the Quality of Schooling: The Rural Farm Areas," Increasing Understanding of Public Problems and Policies: 1965, Farm Foundation, Chicago, Illinois, 1964, pp. 26-29.

^{3/} L. W. Witt, "Economic Problems of Low-Income Families in Iowa," Research Bulletin 307, Iowa Agricultural Experiment Station, Ames, Iowa, October 1942, pp. 251-252.

This is from an Iowa Agricultural Experiment Station Bulletin written nearly 25 years ago. Now here we stand a full generation later just beginning publicly to re-identify the same problems. Only now the problems are many times worse and we are no further along in any effort to design a solution.

Have you ever reflected on the paradox of why many farm families can be wealthy and at the same time earn so little income? Farming is the only occupation I know of in which you can struggle along year after year on poverty or near poverty level incomes and still sell out and retire a reasonably comfortable, if not wealthy, man. The net worth of assets owned by farm operator families average \$44,000 while that of nonfarm families is only half this at \$21,700. ^{4/} Yet the proportion of farm families in the poverty group--i.e., who earn incomes of less than \$3,000 a year--is two and a half times that of nonfarm families. If this is not the consequence of our farm programs, it is certainly reinforced by them, for our farm programs throughout their history have been designed to create income to physical property (primarily land) and not income to human inputs.

Since income to physical property is quickly capitalized into the asset value of the property, most farmers find themselves caught up in the pressures of rapidly inflating asset values and an annual income flow which, despite greater and greater farm program expenditures, is in many cases incapable of sustaining the value of their assets. Thus the debt structure in agriculture grows more vulnerable to deflation, the problem of the transfer of farms between generations is compounded, and increasingly serious questions are raised about the equity and viability of the present ownership and organizational structure of farming.

As a natural consequence of these characteristics, the benefits of farm programs go to the larger farmers who produce the most, who earn the highest incomes out of the market and who hold the most physical assets. In 1963 the top 11 percent of the largest farmers (by gross sales) received 55 percent of all government payments; 56 percent of the farmers received less than 10 percent of all government payments. Thus at one end of this distribution lie the problems of poverty and at the other the complex problems of the commercial farm income-wealth paradox.

Policy for Commercial Agriculture

We clearly are at another node in farm policy. Over the past decade two very different propositions have been tested. One was the contention that the problems of commercial agriculture could be solved by a relatively unqualified "returning of the farmer to the free market." The other more recent

^{4/} Federal Reserve Bulletin, March 1964.

effort proposed to solve the problem via a "supply management" program using direct mandatory controls of production. These two propositions can fairly be said to occupy the opposite ends of the spectrum of proposed approaches to the farm problem. Both failed for lack of political acceptance.

The Food and Agriculture Act of 1965, which the President signed two weeks ago, is an indication of the middle ground over which farm policy now is moving. Let me sketch very briefly some of the salient features of the present policy landscape.

With a few exceptions, the prospect appears to be one of movement toward lower price support loan rates and thus domestic market prices that are closer to the prices in world markets. This moves toward a single effective market price and tends to free the market price mechanism to serve its function of resource allocation. However, lowering loan rates will lead to lower farm income, if nothing else is done.

In order to provide income support beyond that created by loan rates, the new commodity legislation introduces payments of various sorts, primarily price support and diversion payments. A certificate system has been in use for wheat. Thus, the farm income support operation is being separated from the pricing mechanism. This at least makes it possible to maintain farm income while still cutting surplus stocks and letting prices move toward a level that reduces the incentive for overproduction. It also holds out a potential for allowing the farmer to compete in world markets without export subsidies.

Control of surplus production will increasingly depend upon a mixture of features rather than upon just one approach, and the mix will differ by commodity. The approach used for feed grains and wheat and now also for cotton in the Food and Agriculture Act of 1965 (1) requires farmers to divert some minimum acreage in order to be eligible for price supports, (2) provides payments for diverting the minimum acreage and for the voluntary diversion of additional acreage, and (3) prohibits the use of diverted acreage for planting to other major crops. This weds price support with land withdrawal and keys acreage diversion to a specific commodity acreage allotment. In addition to acreage allotments and diversion payments, a general land withdrawal program is also proposed. Lower loan rates and therefore lower market prices should also tend to restrain surplus production.

We now have an opportunity to move toward a more effective export policy which is made possible by lowering loan rates and market prices to world market levels so that American farm products become competitive and may be exported without recourse to export subsidies.

In farm labor policy several questions will continue to confront us. What course should be pursued in choosing between the social costs of the

importation of foreign labor and the private costs that follow from its exclusion? Will a minimum wage in agriculture create more income loss through unemployment of the unskilled in the farm labor force than it adds to the incomes of the laborers who remain employed?

Confronting commercial agriculture, now that it is obvious that it takes a good number of urban congressmen to pass farm bills, is the urgent general question of whether farm commodity legislation can be redesigned to be more generally acceptable to the society. It now is probably the most politically expensive single part of any administration's program to get through Congress. Perhaps the new Food and Fiber Commission can help find the answer to this problem.

Policy for the Low Income Sector

There is a tremendous difference between the problems today of the successful high productivity sector of agriculture and the materially unsuccessful, low production farm sector or low productivity sector of rural community life. No one policy or constellation of related policies is going to handle successfully so varied a range of problems as these. It has been obvious for some time, to those who would see, that policies for commercial agriculture, particularly in the asset inflating form in which we had been pursuing them, are incapable of doing anything significant for those in low productivity agriculture. Even programs designed for the poor farmer would do little directly to solve the problems of rural poverty, since two-thirds of rural poverty is not associated with farming at all. 5/

It is quite clear that we need urgently to separate in our thought and in our programs the policies for commercial agriculture from the policies for the low income, low productivity people in rural life, and from policies for community development. We must stop confusing agriculture, which is an industry, with rural society.

Historically, we have done rather badly in pursuing a policy for the low income population in rural life. In a sense, we did better in the earlier period before the technological revolution which transformed 19th century subsistence farming. Then, at least, everyone had approximately the same access to the services of the Federal Government and the land grant colleges--the primary agents of growth in these early days. But the very fact of the successful economic development of agriculture put an end to this, for development created a successful commercial farmer clientele that soon demanded, and

5/ It remains true, of course, particularly in rural communities in which agriculture is the major industry, that commercial agriculture is the primary tax base for the support of the schools and community services that serve both farm and nonfarm populations. The quality of these social services is a major factor over the long run in determining the capacity and quality of the human factor available in the community.

was willingly given, the nearly exclusive attention of these services. Thus, over time we have increasingly ignored those who failed to stay with the pack in successful adaptation to the technological revolution in agriculture. This is the result in part of a progressive limitation of access to the services offered. Equally important, however, as the programs came more and more to be focused on a successful clientele, the programs and services offered were increasingly designed so that they had little to offer to the unsuccessful. Thus, in the period since the 1920's and 1930's we have done a progressively poorer job in policy for the low income, low productivity people in rural life.

In the 1930's we freed the general organizations in agriculture to concentrate on successful commercial farms by creating specialized agencies, the Farm Security Administration and the Resettlement Administration, to handle the problems of the low income sector. But then we failed to provide the budgetary and political support to sustain these specialized agencies and they passed out of existence under a drumfire of criticism not unlike that being leveled at the Poverty Program.

The question today is: can specialized low income or poverty agencies, wherever placed in the Federal Government, survive long enough to do the job? Can rural organizations, the colleges, the USDA, and the agricultural committees of Congress really do an effective job in providing leadership in policy for low income, low productivity groups in rural life? Can rural people and their organizations overcome decades of intellectual, organizational, and political habits that have in the past insured failure in this area?

The low income structure is a major root of many of the social ills of this society, whether it be rural and urban slums or civil rights. It is involved in the housing, educational, health and transportation aspects of the social disorganization, particularly of urban central cities, but of rural society as well. Many of these social problems have reached crisis proportions and as a result we are well into several major transformations of our society.

One of the structures being revolutionized is that of federal-state-local relations. A plethora of federal programs have been created in the low income policy area alone which reach out to cities, universities, to private local organizations, and to arms of state government. In the process old patterns are being destroyed, new ones created, some points of political decision-making bypassed, others reinforced. All of these new programs will be outside the old federal-state-local structure with which rural people are familiar. If rural people and their organizations desire any major input into rural society from these national programs they are going to have to learn how to work with these new and very different federal-state-local

structures. So far much rural energy has been devoted to a self-defeating effort to force these new programs to function in rural areas through the old structures.

One of the matters of urgency, if any order is to prevail in programs for low income rural people, is the need for a coherent manpower policy. We have made explicit your pricing policy, our land policy and credit policy. We do not have a conscious, integrated rural manpower policy, and we need it badly.

In conclusion, I must point out that the foundation of any successful policy for the amelioration of low incomes and the elimination of poverty is full employment. Nothing will do more for the improvement of the opportunities and welfare of low income people than a sustained full employment economy. Without it the specific programs to improve the capacity and productivity of low income people will never attain their goals.

Finally, let me emphasize that whether it is the problems of commercial agriculture or those of the low income sector of our society, these are not short-run problems. They are chronic structural problems generated by changes in the structure of the society. The adjustments called for by these changes in economic and social structure will require decades before they can be completed. We must be patient, pragmatic and persistent. I am confident we can prevail over these problems--if we really desire to do so.

UNITED STATES DEPARTMENT OF AGRICULTURE

EAST-WEST TRADE

Talk by Anthony M. Solomon
 Assistant Secretary for Economic Affairs
 U. S. Department of State
 at the 43rd Annual Agricultural Outlook Conference
 Washington, D. C., 2:30 P.M., Monday, November 15, 1965

It is a pleasure to be with you today and I would like to thank the Department of Agriculture for inviting me here to talk about East-West trade. The Departments of State and Agriculture work together regularly on a wide range of business and I am happy to say that cooperation at all levels is very good.

In discussing East-West trade we might first ask, what exactly is our policy? What are the criteria used by your Government to determine if a certain product can be shipped by an American exporter to a Communist country? Probably the best single word to describe it -- and I am fully aware of the danger of short definitions -- is flexibility. This is true both with regard to country -- because of the differences among the various Communist countries -- and with regard to the particular transaction.

We embargo all trade with North Viet Nam, Communist China, North Korea and Cuba. In the case of Cuba, however, an exception for foods and medicine for humanitarian reasons can be granted. The reasons for this policy of all-but-complete denial are obvious. Our commitment to support the people of South Viet Nam against the aggression of North Viet Nam makes trade by us with North Viet Nam in any goods -- even clothespins -- unthinkable. It was not long ago that North Korea moved in aggression against its neighbor to the South and the borders of the two Koreas are still policed in an uneasy truce. Communist China daily broadcasts its defiance of peace and boasts of a national policy of aggression. Cuba openly seeks to subvert the Latin American republics and has been declared by the OAS to be a persona non grata nation in the hemisphere.

Our total trade embargo for these countries is primarily a reflection of our non-existent political relations with them and symbolizes our continuing opposition to their aggressive policies and actions.

In contrast, with varying degrees of liberality or strictness, we do permit trade in non-strategic goods with the countries of Eastern Europe and the Soviet Union. Exports of those countries, as you know, are controlled by the Commerce Department, and exporters may ship goods after their license applications giving full details of the sale have been approved by the responsible Government agencies. It is the license application which determines in the first instance the non-strategic character of the proposed sale. These controls are part of American law in the Export Control Act of 1949 and they are parallel, although not

identical with, the international strategic controls worked out with our NATO partners and Japan in an international Coordinating Committee, called COCOM for short. This is to insure that the Communist countries do not obtain from the West goods of a strategic character that could increase their own military potential. All the Western countries, however, do carry on some trade in non-strategic goods with Communist countries. Western Europe's exports to them last year amounted to almost \$3 billion, and Japan's exports were almost \$400 million. So the goods we sell -- on a selected basis -- can be bought from other free world countries such as Japan, Canada and the Western European countries if they are not bought here.

The products that may be permitted in trade change from time to time. Procedures have been worked out both within the U.S. Government and within the COCOM organization to provide for the systematic examination of the strategic embargo lists. Within COCOM, there is a formal review procedure at frequent intervals -- every year or so. As new technology comes into the market and as other changes, with respect to availabilities and alternative sources of supply, take place, the list is revised. Items are added and items are deleted. The basic criterion for deletion is the non-strategic character of the item in question.

The system I have described, and which exists today in much the same selective form as when it was established, dates back to the critical period of East-West tensions which developed after the Second World War.

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From the earliest days of our Republic, we have regarded peaceful trade as a normal element in international relations and we have strayed from this principle only in response to a very definite national need. We did not, for example, treat trade with the Soviet Union differently in any important respect in the 1920s and 1930s -- even when we had no diplomatic relations with it -- than we treated trade with any other country. The sharp break with this tradition came at the end of World War II when the Soviets were fast consolidating their hold on Eastern Europe. The decision was taken to prevent goods, such as important industrial products and equipment which could contribute to their military or industrial strength, from reaching them. The controls placed on trade at that time were very effective because the United States had a virtual monopoly in the West on both the industrial products and raw materials that the otherwise self-sufficient Soviets were not able to produce themselves.

During the Korean War, these coordinated Western controls were strengthened and extended to cover virtually all industrial equipment and raw materials to all Communist countries.

After the Korean War, the importance of these special controls diminished somewhat. Western Europe began to re-build its industry and pressure

naturally accumulated to re-establish markets for civilian-use items behind the Iron Curtain, particularly in the Eastern European countries. Before coming under Soviet domination, those countries had had a very active trade with the countries of Western Europe and even Soviet domination in the early and middle 1950s was not able to eradicate these traditional ties completely. Because the Soviet Union exercised effective control over its European satellites and organized and exploited their economies in its own interest, our trade controls were initially applied equally to the Communist countries of Eastern Europe. But from the outset of our trade control program, we recognized the possibilities and the value of differentiating our controls and other aspects of our policy as a means of responding to and influencing significant political developments in the Communist world.

When Yugoslavia rebelled against the domination of Moscow in 1948 and Moscow broke off its trade in an effort to force Yugoslavia back into line, we supported Yugoslavia's assertion of independence with trade and substantial military and economic aid. Yugoslavia's successful breakaway was a significant event in world history and its influence was felt throughout the world.

About 65 percent of Yugoslav trade is now with the non-Communist world and the influence of that trade and the contacts that have flowed from it have had, in the opinion of your Government, an impact on the internal liberalization in Yugoslavia and can be expected to continue to have a salutary influence. Yugoslavia does not always or even often vote with us in the councils of nations but it is not an imperialist and aggressive power seeking to subvert countries of the free world.

The Yugoslav experience stimulated the latent forces of nationalism within the Eastern European countries. The Gomulka Government in Poland, for example, was able to reduce Soviet domination there and we encouraged the Polish trend toward greater independence through our Food-for-Peace program, our Export-Import Bank credits, and our trade policy. In connection with the conclusion of a claims settlement, we restored most-favored-nation treatment to imports from Poland and adopted a more liberal export licensing policy toward that country.

With the possible exception of Albania, the Eastern European countries are re-asserting in varying degrees their traditional national interests and extending their association with the non-Communist world. Sometimes dramatically, as in the case of Yugoslavia in 1948 and Poland in 1956, and sometimes gradually, as is happening now in Rumania, the Eastern European countries are each looking Westward for help in re-asserting their national identity. Rumania, for example, has recently rejected the confines of Soviet-designed economic plans for Eastern Europe and has sought trade and broadened relations with Western Europe and the United States.

The United States responded to this development by holding trade talks with Rumania in Washington last year. In these discussions, agreement was reached on improved conditions for trade between the two countries, including somewhat liberalized treatment of non-strategic exports to Rumania. Like our response to Yugoslavia, these negotiations illustrate U.S. trade policy with Communist countries -- differentiation and individual treatment.

At the close of 1965, the world looks very different to us from the days of the early 1950s when there was no real reason to distinguish among the Communist countries of Eastern Europe. They were then very much a monolithic bloc since for all practical purposes their leadership was exclusively Soviet-directed. This is no longer the case. While we must not exaggerate the modest degree of revived nationalism in these Eastern European countries, it is an important new trend and pertinent to our policy on trade with them. The specific policies that I have described, reflect our response to the beginnings of this trend. Now it is important to examine our policy and revise it if necessary so that it will continue to serve our interests in Eastern Europe.

President Johnson has recognized the longing of the peoples of Eastern Europe -- and some of their rulers -- for "deeper, steadier and more natural relations with the West." He said recently that "we wish to build bridges to Eastern Europe -- bridges of ideas, education, culture, trade, technical cooperation and mutual understanding for peace and prosperity."

These are peoples with distinct national histories and close traditional ties with Western Europe. They are small and economically vulnerable countries in the process of change. Should we reinforce the Iron Curtain by ignoring the significant changes taking place in Eastern Europe or should we tailor our trade and related policies in accordance with the conditions and behavior of each of these countries?

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So much for the present picture. What about the outlook, particularly with regard to trade in agricultural commodities such as wheat and other grains? We all remember the headlines in late 1963 that the U.S. had decided to sell wheat to the Soviet Union and Eastern Europe.

There should have been no surprise that the Government was willing to give permission to American grain dealers to sell wheat, in view of its non-strategic character and also since it was surplus and sales would reduce the disposal problem. Our sale of \$140 million worth of wheat to the Soviet Union demonstrates rather clearly, I think, the productive superiority of American agricultural organization and at the same time indicts the Soviet system for failures in the very sector of their economy they have tried so hard to build as a showcase.

But despite the wheat sale, the volume of trade between us and the Eastern European countries and the Soviets is still very modest. In 1964, out of total U.S. exports of about \$26 billion, we sold to them only \$340 million, including wheat, or about 1 percent of our total exports. This figure includes, however, some PL-480 sales. Our imports from them of \$102 million in 1964 were considerably less than 1 percent of our total imports.

Although our exports to these countries are very small in terms of our total exports, it is interesting to note the rather large amounts of agricultural commodities included in these figures. Taking the three-year period 1962-1964,

our commercial agricultural exports to Eastern Europe and the Soviet Union amounted to almost \$400 million. So we cannot dismiss this trade as negligible in terms of a favorable impact on a particular sector of the economy -- agriculture -- or on our balance of payments.

What do the shortages in the U.S.S.R. and Eastern Europe mean in terms of our own sales opportunities? I cannot say flatly as that is subject to a number of unknowns. What is clear is that Soviet and Chinese purchases since July of this year have again made world supplies tight outside of the United States, as happened two years ago when their purchases left the United States the virtual sole supplier in the latter part of the crop year.

Between them, the Communist Chinese and the Soviets have contracted for about 15 million tons of wheat for delivery by next July. Eastern European countries also have been in the market for purchases ranging upward of 2 million tons. From what we know of agricultural conditions in Eastern Europe and the Soviet Union, it appears highly possible that they will need still more wheat to supplement the massive purchases already made in Western markets.

So the possibility of Soviet or Eastern European overtures in our wheat market exists. As you know, we would welcome such sales for much the same reasons as we welcomed them two years ago. Some of the reasons why I have tried to outline here today.

I am sure that you are interested in the requirement that 50 percent of any American wheat sold to the Soviet Union and the Eastern European Communist countries as well as 50 percent of other grains sold to the Soviet Union must be carried in American ships if available. This is a controversial subject and, as President Johnson noted recently, there are "strong and divergent views as to its merits."

The existence of the requirement, as you know, did not prevent the East Germans from buying 45,000 tons of American wheat last month for their holiday baking.

We do not know whether the Soviet Union is prepared to buy wheat or other grains from us. But we do know that they are not prepared to pay the extra costs required for moving half of their purchases on ships charging rates above the world level so long as wheat is available from other countries. It is possible that if the 50 percent American shipping provision were removed, not a ton of grain would move to Eastern Europe. But it is also possible that if the shipping requirement were rescinded, the Soviets would be in the American market for considerable quantities of wheat and other grains.

This cargo preference regulation is under constant review within the Administration. It also has been under study by the Senate Foreign Relations Committee.

In responding to a letter from this committee last month, President Johnson said that he was aware of the great interest among those in the agricultural industry in selling wheat to the Soviet Union. Because of that interest and the concern of the Committee, the President states, "the Administration will continue to maintain an active consideration of the regulation, the advisability of continuing it in effect, and the likelihood of effectuating potential sales if it were rescinded."

You can be assured, therefore, that this matter is receiving the most careful attention within the Government and that all factors are being weighed.

The outlook for East-West trade is affected by many things. It is affected by what we are able to offer to sell to the Eastern Europeans and the Soviets, and under what terms. It is affected by what they are able to export to us. It is affected by the mechanics of tariffs, the physical distances between the two markets and the institutional framework of their state trading organizations as opposed to our private enterprise, and many other factors or decisions.

But it is also affected by the intangibles of consumer decisions here in the United States. In our market system, what is ultimately bought by consumers is the sum total of individual decisions. We are under no obligation or duress to buy or not to buy brand X or Y or Z.

Also, the decision on the part of a businessman to trade or not to trade with Eastern Europe or the Soviet Union is entirely one for him to make. Your Government does not, however, recognize the propriety of organized pressure groups interfering with Government decisions on East-West trade that have been carefully worked out with full regard for the national interest and security. Recently, most of the major tobacco companies were threatened by a boycott because of their use in cigarettes of oriental-type tobacco imported from Yugoslavia. The tobacco companies courageously refused to be intimidated by a group that called itself "The Committee to Warn of the Arrival of Communist Merchandise on the Local Business Scene," and the Secretaries of State, Defense and Commerce wrote a public letter to the companies commending their refusal to submit to the threatened boycott.

The letter from the Cabinet officers said, in part "... your Government regards commerce in peaceful goods with the countries of Eastern Europe, including the Soviet Union, as completely compatible with our national interest. No American business enterprise should be penalized for purchasing or selling such goods. In fact, any individuals or groups that seek to intimidate, boycott, blacklist, use or threaten economic reprisals against such American enterprises for carrying on lawful trade with Eastern European countries act harmfully and irresponsibly. To yield to such groups is to encourage capricious interference with the vital processes of our Constitutional Government -- interference that could at the end of the road make it impossible for our country to conduct a coherent foreign policy."

This statement has laid to rest a threat that, had it not been dealt with decisively, might have led to action that could have interfered seriously with the other, positive efforts being made in the East-West trade field.

Boycott pressures such as this one don't happen every day. But other pressures that have a net effect on the Federal Government's Constitutional role in these matters arise frequently. For example, many local labelling ordinances encumbering the trade of Communist countries are passed over the authority and competence of the Federal Government in this sphere. Many of these are declared unconstitutional in local or state-level courts, but others have gone unchallenged or unnoticed and hence remained on the books.

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It bears repeating that our trade policy toward Communist countries is but a small part of our overall policy toward them. A main purpose of this policy is to demonstrate that both sides benefit from peaceful exchange.

Trade relations and trade negotiations are a highly effective means of communicating this point. Through them, we hope to "build bridges," so that over time we can influence these countries along paths favorable to our purposes and to peace. We have no illusions that this will come about soon or even that trade will be the decisive factor. But we are sure that it is a factor and should be used to the fullest.

Recently a special Presidential committee headed by J. Irwin Miller, President of the Cummins Engine Company, made an hard-headed evaluation of the way in which United States national interests may be advanced by a more creative use of American trade relations with the Communist countries of Europe. The Miller Committee report put its conclusion this way: "Trade is one of the few channels available to us for constructive contacts with nations with whom we find frequent hostility. In the long run, selected trade, intelligently negotiated and wisely administered, may turn out to ---(be) one of our most powerful tools of national policy."

In order to use trade effectively as an instrument of policy, the President will need the authority to enter into discussions with these countries on a case-by-case basis and look at such things as copyright, patents, protection of American property and non-discriminatory most-favored-nation tariff treatment for the countries that do not have this at present. It should be made clear however -- in keeping with our overall policy design of flexibility -- that such MFN tariff treatment could be granted or withdrawn, depending on whether our interests were best served by encouraging or denying trade.

An expansion of our peaceful trade with the Eastern European countries and the Soviet Union could, over a period of time, bring us some commercial and economic benefits. But a more important effect, we believe, would be the chance to break down further the barriers of ignorance, distrust and fear that separate their peoples from ours. We would also hope this would apply to

official relations. Thus the channels of peaceful trade would be used more fully to reduce international tensions and strengthen the outlook for peace. For these reasons we believe that United States policy on East-West trade deserves the most careful consideration by the public, the Congress and the Executive branch of your Government to insure that it is attuned to the times and serves our national interest as effectively as possible.

UNITED STATES DEPARTMENT OF AGRICULTURE
Foreign Agricultural Service

OUTLOOK FOR EXPORTS OF U. S. FARM PRODUCTS

Talk by Raymond A. Ioanes
Administrator, Foreign Agricultural Service
at the 43rd Annual Agricultural Outlook Conference
Washington, D.C., 2:00 p.m., Monday, November 15, 1965

We live in an expanding world in which each year we have more people, more economic activity, more international trade in general, and more agricultural trade in particular.

The outlook for continued large exports of our farm products is excellent. During this 1965-66 fiscal year, we believe they will advance to a new record of \$6.2 billion.

And I think the export direction will continue to be upward. Overseas demand is growing, we have the products, the quality in general is very good, and our producers and exporters are improving their export capabilities.

Looking ahead a few years, there is reasonable possibility of moving up to a new \$7 billion export plateau and, in a few years more, even an \$8 billion plateau.

Exports are today a highly important part of our domestic agricultural outlook. Wheat, soybeans, and feed grains are examples. All are members this year of the exclusive Billion Dollar Export Club. When we have exports this large, they become an important influence in all our production and marketing decisions.

Export statistics like these are out front for everyone to see, but what we are doing here today -- in the spirit of this Outlook Conference -- is to look behind the statistics. What's the story behind the big spurt in feed grain exports? And how do major international developments translate into forces affecting our agricultural exports?

Many of us have taken part in this Outlook Conference for a number of years. In our foreign trade review, I don't recall any two consecutive years which were alike. In the world of agricultural exports there is no Sea of Tranquility, and I might cite four current examples that bear this out:

One is the world's growing appetite for the good things of life. People want more meat, eggs, and dairy products. This development has been coming about ever since wartime recovery but is now coming into sharp focus. This appetite is the primary reason for the spurt in our exports of the raw materials that go into the world's animal industry -- namely, feed grains.

A second development is the constant change that takes place in world political arrangements. Here we find that political action and economic consequence are often bound together. Rhodesia is a current example. As a result of Rhodesia's recent declaration of independence, the British government has imposed certain economic sanctions, including the banning of imports of Rhodesian sugar and tobacco. This move has many important trade implications, including for American agriculture. The British presumably will have to find alternate sources for that part of their tobacco which has been coming from Rhodesia -- around 100 million pounds of flue-cured tobacco a year, ranging in value from \$60 million to \$75 million. The entire development is regrettable and we hope a solution will be found. It is not the way we seek to expand our own export business. Nevertheless, it is a current fact which may affect our export outlook.

A third development has to do with the balance of payments. We have recognized for many years the importance of exports to our farmers -- one acre in four finding its market overseas. We have recognized the value of export income to our towns and cities. But only in comparatively recent times have we fully recognized the strong support given to our precarious balance of payments position by the dollars our agricultural exports bring back to the United States.

A fourth development, and perhaps this overshadows all the rest in current interest, is East-West trade. I know we all look forward to the views of our next speaker on this subject.

The emergence of the Communist countries as large buyers is a key factor in today's world grain trade. Since 1960, when this large scale buying began, Eastern countries have bought about 2.5 billion bushels of wheat from the West. We estimate that as much as 40 percent of the world's commercial movement of wheat this year is going into Communist areas.

When the Communists made their first big purchases of wheat in 1960, the popular attitude was that this was single-shot buying. Many people figured that neither the Soviet Union nor Eastern Europe nor Communist China had the finances, or the desire, or the need to keep on buying, year after year. But this is the fifth consecutive year that they have been buying heavily from Western suppliers, mainly Canada, Australia, Argentina, and France. These sales, more than any other single factor, have permitted our competitors to sell their expanded production and avoid building surplus stocks.

In my opinion, it should come as no great surprise if the Communist countries remained in the grain market, perhaps up and down but in, for some years to come. Their grain lands frequently are high risk areas, their farmers lack incentive to get the most from the land, their plans for improvement are slow in being applied, and their people have a growing appetite for more and

better food. I think there is a strong possibility that they will have no choice but to be large-scale importers in most years of grain from outside countries.

How much does the United States share in this market?

As a matter of national policy we do not, of course, trade with Communist China.

We did sell 65 million bushels of wheat to the Soviet Union in 1963-64. We have not sold any since.

Also, we sold 45,000 tons of our soft wheat this month to East Germany. But this was an unusual circumstance. East German bakers were running short of cake flour for baking Christmas cakes. Their need was urgent enough that they were willing to pay the higher cost entailed in buying our wheat and also supplies of this kind of wheat from other areas are limited.

Our active business with the Communist area is in feed grains. The cargo preference provision is not applied to feed grains, and we are selling them in large volume to East Europe. So far this fiscal year we have sold over 400,000 tons of feed grains to the area. These sales may reach a million tons.

What we're selling is mainly grain sorghums, and the principal buyers are Czechoslovakia, Bulgaria, and East Germany. There are good sales possibilities in Poland and Hungary as well.

The Commodity Outlook

I would like to return now to the overall export picture. This is, of course, not a single picture but a mosaic. I believe the trade statistics people in the Economic Research Service list more than 400 agricultural products in their export tabulations, and we derive the total picture by piecing together these separate contributions.

As a prelude to the separate commodity discussions that start tomorrow, it may be useful to review the export prospects of a few of the leading commodities.

Wheat

Exports of wheat, though smaller than two years ago, are conservatively forecast at 750 million bushels. Exports during July-September were running 12 percent higher than a year earlier, and most of this increase was in commercial sales for dollars.

Food for Peace is still the major export outlet. Last year we exported 728 million bushels of wheat, 22 percent commercial sales, 78 percent Food for Peace.

As a matter of fact, about 60 percent of the Food for Peace program is wheat. When we're talking of food aid to India, for example, we're talking about wheat -- about two shiploads a day. Obviously, wheat has come to play a special role both in our foreign policy programs and in the policies of other free world governments as they make their daily decisions.

Feed Grains

Feed grains are this year's glamour crop. If you can call a crop a mirror, this is the crop that mirrors the world's urge to live better. Out of feed grains come the meat, milk, eggs, and other animal products that people buy more and more of, as rapidly as they can afford it.

Our feed grain exports have moved up from about 7.7 million tons a decade ago to about 21 million tons. I think we all remember when our corn was mostly fed out on our farms and grain sorghums were a crop most farmers weren't even acquainted with. Now both corn and grain sorghums are moving, shipload after shipload, across the Atlantic and Pacific, into the Mediterranean, the North Sea, and anywhere else that people are expanding their animal agriculture. And this is mainly commercial dollar-earning business.

We expect the value of exports of feed grains and products in fiscal year 1966 to total somewhat over \$1.1 billion, an increase of 16 percent over last year and a new record.

Rice

We expect to see a new record also in rice exports. The export value for this fiscal year is projected at \$231 million, a 14 percent gain over last year.

Rice, like wheat, plays an important part in Food for Peace. Also, rice plays a strategic role in our defense operations, as shown by the very large amounts of our rice that have been moved into South Viet Nam to help feed the army and the civilian population.

But our big increases in rice exports are being made in our commercial sales. We have excellent rice, its reputation continues to grow, and it is commanding a premium. During the past five years, our commercial exports of rice increased 160 percent.

Cotton

The situation in cotton has been difficult. Our exports of cotton are projected at 4.2 million bales for the fiscal year (4 million, marketing year). This would be down somewhat from last fiscal year's 4.5 million bales (4.1 million, marketing year). In value, we look for cotton exports to reach \$500 million.

The new cotton program will come into play next August 1, and beginning then we expect our improved competitive position will enable us to pick up some of the shortfall now being experienced.

It had become obvious that our previous cotton program was not getting the job done and fundamental changes were needed. As the President said when he signed the Food and Agriculture Act of 1965, the new cotton program will strengthen the competitive position of our cotton in world markets and help bring stability to those markets. At the same time, it is designed to protect the income of our cotton farmers, reduce Government costs, and reduce our surpluses. The new program will be discussed in detail in the commodity session on cotton on Wednesday and I know many of you will attend.

Tobacco

We look for exports of U.S. tobacco this fiscal year to move up to about 513 million pounds, which would be 33 million pounds above last year.

Our flue-cured crop this year is of much better quality than last year. Our tobacco, of course, is the world's best and West Germany and Japan in particular continue to buy more of it. Also, production in Rhodesia, our big competitor, was down this past season and her current political difficulties can substantially affect her trade.

Oilseeds and Products

We expect another record year in exports of oilseeds and their products. We're speaking here mainly of soybeans, soybean meal, and soybean and cottonseed oil -- they make up almost all of the export business.

We have projected our exports of oilseeds and products to about 1 billion 130 million dollars in fiscal year 1966, which would be up again from last year.

These products are moving mainly through commercial sales. We expect to maintain Government programming while making some gains in dollar sales despite somewhat lower prices. Soybeans, like feed grains, reflect the desire and ability of the world's people to live better. As long as the affluence of the developed areas like Europe and Japan keeps growing, we can expect our soybean exports to expand also.

I see a growth trend in soybean exports for many years ahead. Our long-time competitors are the Communist Chinese. I think they're going to have their hands full feeding their own population.

Dairy Products

We look for continued large exports of nonfat dry milk this year, and the value will be up because of higher prices. However, the export total for all dairy products may be \$200 million as compared to \$226 million last year.

Our nonfat dry milk has emerged in a new role -- an important element in livestock feed, particularly for veal calves. The Dutch and Italians are buying large amounts for this purpose.

Poultry Products

We haven't yet recovered from the set-back in poultry exports that took place three years ago when the European Common Market greatly increased its import levies. We are finding markets outside the European Economic Community, in a number of countries. In order to keep selling in Austria and Switzerland, however, we have had to initiate export subsidies on chicken to regain our share of those markets that was lost when Denmark, France, and the Netherlands began programs of subsidizing poultry meat exports. We took this problem before GATT but found no answer. The only effective answer was to meet this unfair competition through subsidies, which we are now doing. We stand ready to remove these subsidies whenever our competitors revoke theirs.

Our exports of turkeys continue to rise, from 46 million pounds last year to an expected 60 million pounds this fiscal year.

In total, we expect some improvement in the poultry meat export picture, with a projected value of \$60 million this year as compared with \$55 million last fiscal year.

Livestock and Meat Products

There is quite a bit of activity in this area. Worldwide demand for tallow continues strong and it is the largest dollar-earner among our livestock products. Our exports of variety meats -- hearts, livers, tongues, etc. -- continue to go up. There is a growing taste for these products, particularly in Europe. Also, exports of hides show continued gains as people in a number of countries buy more shoes.

Our lard exports have dropped, because of our domestic supply and price situation. Our beef, veal, and pork exports are down for the same reason. We've been continuing to promote sales of our high quality grain-fed beef in Europe because we're hopeful that eventually a market for it will open,

particularly in leading hotels and restaurants. A German importer bought a substantial trial shipment of high grade beef early this month for such outlets in West Germany, and this may be the door-opener for more sales.

Aside from price, we have a problem of differences in sanitary regulations. We think our sanitary standards are the highest in the world but they are not always acceptable in Europe. We hope the growing market for our meat and meat products in Europe will not be impeded by technical misunderstandings. We're doing a lot of work to see that this does not happen.

Fruits and Vegetables

We expect our exports of fruits, particularly fresh fruits, to be up somewhat over last year's total of \$290 million. Exports of vegetables, at \$112 million last year, may be down somewhat.

There continues to be a lot of foreign interest in our fruits and vegetables. One promising development is the fact that our fresh fruits and vegetables have joined the jet age. The transAtlantic airlines dropped their air shipping rates on strawberries from 30 cents in 1963 to 23 cents a pound starting September 1, this year. During the first 10 months of this year, our strawberry growers shipped over 33 freight carloads of strawberries to Frankfurt alone, almost 7 times as much as last year.

Air rates on other fruits as well as vegetables are being dropped January 1 to 16 cents a pound, London destination, 18 cents, Frankfurt, and similar rates elsewhere in Europe. This should bring a big increase in our exports of fresh fruits and vegetables to Europe, particularly during the winter months.

What Lies Ahead

As we noted earlier, the foreign agricultural market is a growth market in which we are doing very well. During the past 10 years, world agricultural trade increased \$9.2 billion. It reached a new high total of about \$31 billion in 1964. While we supply about 20 percent of this world trade, we were responsible for 37 percent of the increase.

We have more than doubled our agricultural exports during the past 10 years and practically all of this increase has been in dollar sales.

The foreign market is going to keep on growing and I am highly optimistic that our agricultural exports can keep growing with it. But our share of the market will not come to us by default. We will have to work for it, just as our competitors around the world are working to retain -- and expand -- their shares of it.

We now have a substantial foreign market development program and we are rather proud of some of its accomplishments. The Department of Agriculture and 47 agricultural trade organizations are carrying out jointly-funded trade promotion projects in 67 countries. Last year the Government and industry together put about \$18 million into this work. Without question this program is making an important contribution to our record export totals.

At the same time, however, we need to look at what the other exporting countries are doing. Australia, with agricultural exports 40 percent the size of ours, is spending more money on foreign market development than we are. The major wool exporting countries, Australia among them, have set up a new export promotion program for wool budgeted at \$36 million a year. The International Cotton Advisory Committee estimates that the manmade fiber producers are spending \$45 million a year in Europe and \$20 million a year in Japan, in their very successful efforts to compete with cotton.

I think one of the serious questions we face in the period immediately ahead concerns the amount of funds and effort our agricultural producing and marketing enterprises -- and the Government -- should expend on promotion work of this kind.

We can start with the premise that market development efforts, properly conceived and directed, do get results. I might cite three examples:

(a) We took part in an international food show in Cologne, Germany, in October and enlisted the participation of 56 U.S. food firms, which in turn exhibited 250 different U.S. food products. Representatives of these food firms met during the show with some 1900 foreign food buyers, sold \$115,000 worth of U.S. food on the spot, and as a result of contacts made expect to fill \$2 million worth of additional orders in the year ahead.

(b) Ten years ago, Japan obtained wheat from us mainly under Public Law 480. Today, Japan is our biggest cash market for wheat. The Department of Agriculture and our wheat marketing cooperators worked very closely together in bringing this about. Through education and demonstration the Japanese, though traditionally rice-eaters, accepted the idea of including wheat products in their diets. Millers and bakers were trained in handling of wheat and wheat products. Trial shipments of our wheats showed their desirable qualities. Reduction of freight rates from the Midwest to West Coast ports helped make our wheat prices competitive. In these and other ways, we built a market in Japan which accounted for 43 percent of all our dollar exports of wheat last year.

(c) With Thanksgiving only a week and a half away, there is the example of turkey promotion in Italy. Italy has emerged as a new and important market. Our sales of turkeys to Italy expanded from about 600,000 pounds in 1962 to 2.8 million pounds last year, and currently are running at twice last year's rate. Part of the background of this promotion is Italy's veal shortage.

Top grade white veal currently retails in Italy for about \$2 a pound; turkey breast, brought in from the United States, retails there for about \$1.25. Italian cooks are being shown that they can make an economical substitution of turkey breast for high-priced veal in some of their favorite dishes, and this alone is one important factor in our expanding sales.

This market development work, as I indicated, is a jointly-funded operation. We insist that every project be carefully conceived and responsibly carried out. Therefore the size of the program and the amount of Government funds we put into it is pretty much dictated by the ability of the private cooperators to manage the work effectively.

We are particularly pleased by the way private firms in the American food industry are rising to the challenge and are putting their experience, money, and manpower into the program. Not only in Cologne last month, but also in Brussels this month, a large number of American food firms exhibited their products in an international trade fair setting, which our trade fair program provided, and in just a few days time lined up a substantial amount of export business. When we have this kind of active cooperation and visible promotion pay-off, we know without question we are getting excellent return for the Government's share of the investment.

As another part of our look to the future, we need to keep an eye on the emerging markets and encourage them to expand. In the world of foreign trade, miracles do happen. We are seeing countries with weak economies gain new strength and begin buying, perhaps not much at first but enough to be worthwhile and enough to hold promise for the future. We've been promoting vegetable oil sales in Iran only four years, but already we're getting substantial results. We've done some promoting of poultry in Chile, and recently because of an unexpected meat shortage, the Government of Chile bought 2 million pounds of U.S. frozen broilers.

Also, we need to keep working on the matter of giving service to our foreign customers. The customer in Cologne thinks he's just as important as the customer in Cleveland. For some of our products, it's a simple matter of our giving the kind of service -- in quality, packaging, or whatnot -- that the foreign customer wants or one of our competitors gladly will do the job instead.

We need to find answers to some new demands being made on us, some we did not visualize a few years ago. I'm thinking now of questions that arise out of doing business with countries that do state trading. The countries of Eastern Europe rigidly control their trade and swing it in any direction that seems expedient. If we are to do business with them -- and we are doing business with them -- how can we persuade them to "liberalize" their trade so that we have some assurance of continuity?

Finally, we must continue to give strong world leadership to the cause of liberal trade. I have observed the ebbs and flows of world trade for a number of years, and the evidence shows clearly that minimum restrictions in international agricultural trade are good for the world and good for us.

Back in 1931-34 when the high tariffs of the Smoot-Hawley Act were in effect, our annual agricultural exports averaged only \$800 million. Today, with tariffs greatly reduced, they are over \$6 billion.

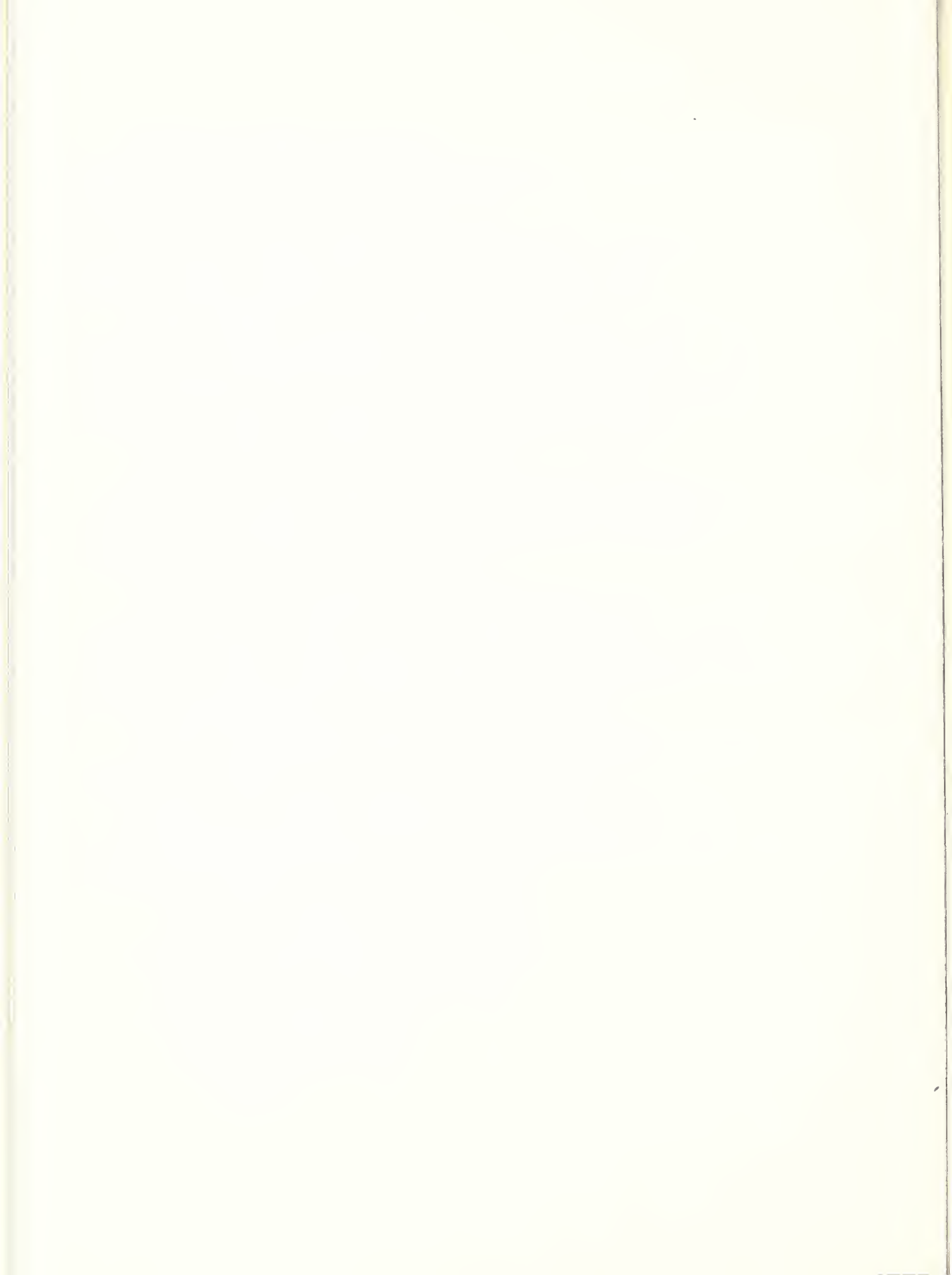
It is true that during these 31 years our agricultural imports also have risen, for we are a good market for the rest of the world. But our agricultural exports have risen much more, and our net earnings through agricultural trade are highly favorable. In 1964 the United States had a favorable merchandise trade balance of nearly \$6.6 billion, and to this favorable balance agriculture contributed more than one-third.

Our premise that freely flowing agricultural trade is a good thing is being challenged on many sides -- not so much directly as indirectly. Some of our trading partners seem to be embarking on domestic programs to achieve greater self-sufficiency. Regional alignments with trade restrictive features have developed.

I think the time is here for us -- and the world -- to accept freely flowing international trade as a practical necessity. Mass production requires mass marketing. Only through mass production and mass marketing can the world's growing numbers of people expect to be adequately fed and adequately clothed in the years ahead.

In conclusion, let me say that exports have become of greater economic importance to our farmers and of political importance to the U.S. Government than ever before. In carrying out these exports, the world each year brings us new problems with which we have to cope. But I am highly optimistic. I think we will cope with these problems as they arise and the exporting of our farm products will continue to be one of American agriculture's great successes.

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UNITED STATES DEPARTMENT OF AGRICULTURE

SOME FACETS OF THE NEAR-TERM BUSINESS PROSPECTS

Remarks by Louis J. Paradiso
Associate Director, Office of Business Economics,
U.S. Department of Commerce
at the 43rd Annual National Agricultural Outlook Conference
Washington, D.C., 11:30 A.M., Monday, November 15, 1965

What are the factors likely to bring about a continuation of the current strong economic expansion in 1966?

Let us consider first the Federal Government programs. As a result of the stepped-up Viet Nam operations, national defense purchases are rising, reversing a declining tendency since 1962. Furthermore, extensive legislation enacted by the Congress this year provides for increases in many other types of expenditures. In sharp contrast to 1964 and 1965, when the Government's fiscal actions were concentrated in tax cuts, the 1966 Federal programs involve, for the most part, increasing expenditures.

We do not know yet how much defense spending is likely to expand. We do not know how quickly State and local governments will spend Federal funds made available to them. Consequently, no definitive overall estimate of the increase in Federal expenditures can be made at the present time. The major programs enacted by the Congress this year affecting the flow of income involve mostly transfer payments, which may increase \$3 billion in 1966 over 1965, and grants-in-aid to State and local governments which may also be \$3 billion higher -- a total add-on of \$6 billion. This year these types of expenditures are estimated to run about \$2-1/2 billion higher than in 1964.

To pay for the increased Social Security benefits, covered employers and employees will contribute an additional \$5 billion or more in 1966 to the social insurance fund. The withdrawal of this large amount of purchasing power from the private sector will be largely offset by the additional income flow stemming from the liberalization of the Social Security Act, and, particularly, after July 1 when medicare benefits are paid. During the first half of next year, before the medicare benefits are paid out, an offset to the higher contributions will be provided by the next stage of the Federal excise tax cuts. These cuts are estimated to total nearly \$1-3/4 billion, at annual rate, and would involve mostly services. Also, helping to offset the higher contributions would be the stepped-up Federal purchases. Given the expectation of rising incomes and the offsets just mentioned, it does not appear that adverse economic consequences would result from the higher payments into the social insurance fund.

Rising defense procurement plus the higher military and civilian pay would lift 1966 Federal purchases of goods and services considerably above this year's estimate of nearly \$67 billion.

Larger Federal transfers and grants-in-aid will provide the means for higher spending by State and local governments. In the past two years, purchases of goods and services by these governments have risen by more than \$4-1/2 billion per year. Some acceleration in such purchases may be expected next year. Much more will be spent for education and health purposes and for construction. State and local government purchases may show a rise of as much as \$5-1/2 billion in 1966 over the 1965 total.

Thus, the anticipated expenditures by all governments will contribute substantially more to next year's increase in total GNP than has been the case this year.

Demand Arising From Business

Not only are government demands expected to expand, but business is poised to extend its capital goods programs into next year. On the OBE-SEC survey basis, expenditures for plant and equipment this year are scheduled to rise 13-1/2 percent over 1964, following a 14-1/2 percent increase last year. Business confidence in continued economic growth is a basic factor in present intentions to sizably expand investment next year. Higher rates of sales and profits are expected. Also, continued intensive competition among business firms to cut costs, to increase productivity, and to produce new and better products adds to the incentive to investment. A large proportion of the investment is planned for additions to capacity, as has been the case in the past two years.

Rising productivity and total demands have been reflected over the past four years by relatively stable labor costs per unit of output in manufacturing, during a period when average gross hourly factory wage rates have risen close to 3 percent per year -- about the same as the increase in productivity. These developments helped to produce a balanced economic expansion and relative price stability.

Several private surveys indicate that capital goods demand is scheduled to show another sizable increase next year -- perhaps as much as 12 percent or more over the record 1965 total of \$51 billion. This means additional spending for capital goods of \$6 billion in 1966. The recent McGraw-Hill survey showing an 8-percent increase probably understates the rise by about 5 percent on the basis of the past performance of this fall survey. Allowing for this bias would place the indicated 1966 increase at around 12 percent.

There is a question of the ability to finance the expected expansion in capital goods demand. The increase in corporate internal funds next year is expected to be much less than this year's unprecedented rise of \$8 billion. Thus, the enlarged capital programs may require more external financing than has been the case recently. This is already underway, and some companies are resorting to borrowing for the first time. But sufficient funds for investment purposes will be available; particularly since personal savings are likely to expand and may not be entirely absorbed by the needs of the housing market.

Inventory developments have been quite unusual this year. Following a large accumulation of \$9 billion, at annual rate, in the first quarter, inventory additions

were whittled down to about \$7 billion, in the second quarter, and to \$6 billion in the third quarter. The reduction is associated with the large accumulation of steel by consumers and by the heavy stocks of 1965 auto models held by dealers. A further decline in the rate of inventory investment is expected in this quarter. The bulk of the steel liquidation, however, may be completed by the end of this year. Total inventory requirements next year may be more in line with production and sales, so that such investment would be somewhat less than the \$6-1/2 billion estimated for 1965. Cautious inventory policy has been the watchword for some time. For one thing, stocks are costly to carry. However, here and there expectations of higher prices may induce extraordinary inventory buying, although I do not believe price developments will be a basic consideration in next year's inventory decisions.

Residential construction activity apparently is going nowhere. Although continuing at a high rate, the trends of housing starts and permits are not as yet encouraging. The Western States still suffer from high vacancy rates, and housing starts there are still undergoing adjustments. Only a modest increase in residential construction expenditures may be expected next year, although over the longer run as household formation increases, the housing picture should show a sustained and strong growth. There is as yet no indication of any deterioration in the quality of mortgage loans or in the foreclosure rates. Ideas to the contrary are not based on facts. Of course, the foreclosure rates vary by States, with many States showing little change or substantial improvements compared with a year ago, as for example, Michigan, Nevada, and Wisconsin, while other States have experienced large increases in foreclosure rates, particularly Arizona, Colorado, and New Mexico.

Net Exports

I shall touch briefly on our export and import developments. Exports of goods and services have been rising since the settlement of the dock strike early this year; in the third quarter they reached a seasonally adjusted annual rate of over \$40 billion, \$3 billion higher than in the third quarter of last year. Imports of goods and services, however, rose by \$4 billion over the past year. Thus, our net export surplus, while higher than earlier this year, is estimated at \$8 billion in the third quarter, \$1 billion lower than the annual rate of a year ago.

Imports are generally a function of our domestic economic activity. Since the expectation is for a continued rise in business here, imports are likely to be in a rising phase in 1966. Our exports, on the other hand, depend on the rate of economic growth of foreign countries and on many special factors. The rate of growth of industrial output in most of the developed countries has either leveled off or slowed considerably over the past year, and such developments may affect our exports. However, strenuous efforts are being made by businessmen with Government cooperation to expand our sales abroad. In 1966, we may be able to match the \$7 billion net export surplus expected this year.

Consumer spending has been a most dynamic source of demand over the past year, mainly because of the upsurge in durable goods buying. Accompanying a large

rise in disposable personal income -- which has increased by nearly 6 percent in the first 9 months of this year over 1964 -- durable goods purchases have risen by 9-1/2 percent while expenditures for nondurables and for services have increased by 5-1/2 and 6-1/2 percent, respectively. According to recent reports, the 1966 model cars are selling exceptionally well. For 1965 as a whole, passenger car sales may total 9.4 million units, of which about 500,000 are imports. In view of expected rising incomes and no overall change in the average unit car value, total 1966 auto demand may exceed this year's record high. A 10-million car year could be a reality before long. Consumer expenditures for furniture and household equipment have increased by \$2 billion over year-ago rates -- percentagewise the rise is in line with the flow of disposable personal income. These purchases are closely linked to income and a similar gain may be expected next year.

Because of strong durable goods sales and higher income after taxes, consumer credit has advanced substantially over the past year. Installment credit rose by nearly \$7-1/2 billion from September 1964 to September of this year; in the corresponding period of the year before the increase was about \$5-1/2 billion. Considering the fact that purchases of autos and other consumer durables and incomes have been much larger over the past year, the acceleration in credit over the earlier period is, indeed, moderate.

There are some who hold the view, nevertheless, that the amount of credit outstanding is excessive and that its quality has deteriorated. Examination of various aspects of the credit picture, however, does not support these contentions.

We now turn briefly to the large consumer category of expenditures -- nondurable goods and services. These at present comprise 85 percent of total personal consumption expenditures. Disposable personal income and population growth are the basic determinants of these expenditures. Over the postwar period, such purchases have tended to move closely in line with income after taxes, although at times there have been significant departures from the one-to-one relation. From 1962 to 1963 consumer outlays for nondurables and services increased as much as disposable personal income -- about 5 percent; in 1964, however, the expenditure increase of 6 percent was less than the rise in after-tax income of 8 percent, mainly reflecting a lag associated with the tax cut in that year.

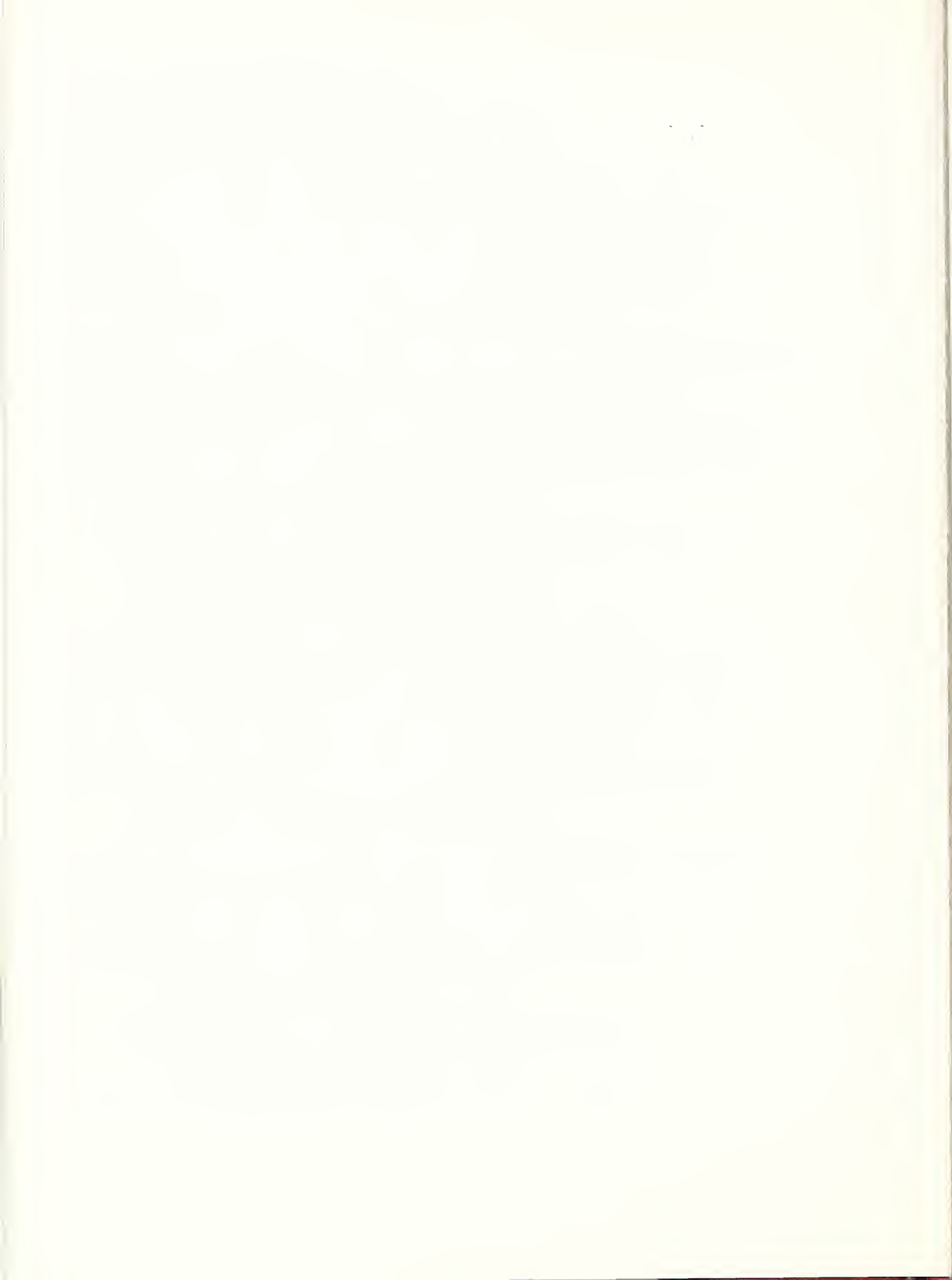
This year, purchases of nondurables and services are expected to rise by somewhat more than the 6-1/2 percent increase in disposable personal income. Expenditures for food and beverages in 1965 will show one of the largest year-to-year increases of the postwar period, with higher food prices accounting for a good part of the rise in dollar outlays. At the present time, consumer spending on food and beverages is running at an annual rate of \$100 billion -- a new high -- this is equivalent to \$510 per capita.

The effect of Government and business demand may well result in a further gain in disposable personal income in 1966 of about 6 percent over this year's total, a little less than the 1964-1965 increase. Consumer spending for nondurables and services may rise faster -- by about 6-1/2 percent, the larger increase being due mainly to the additional spending by the aged under the medicare program.

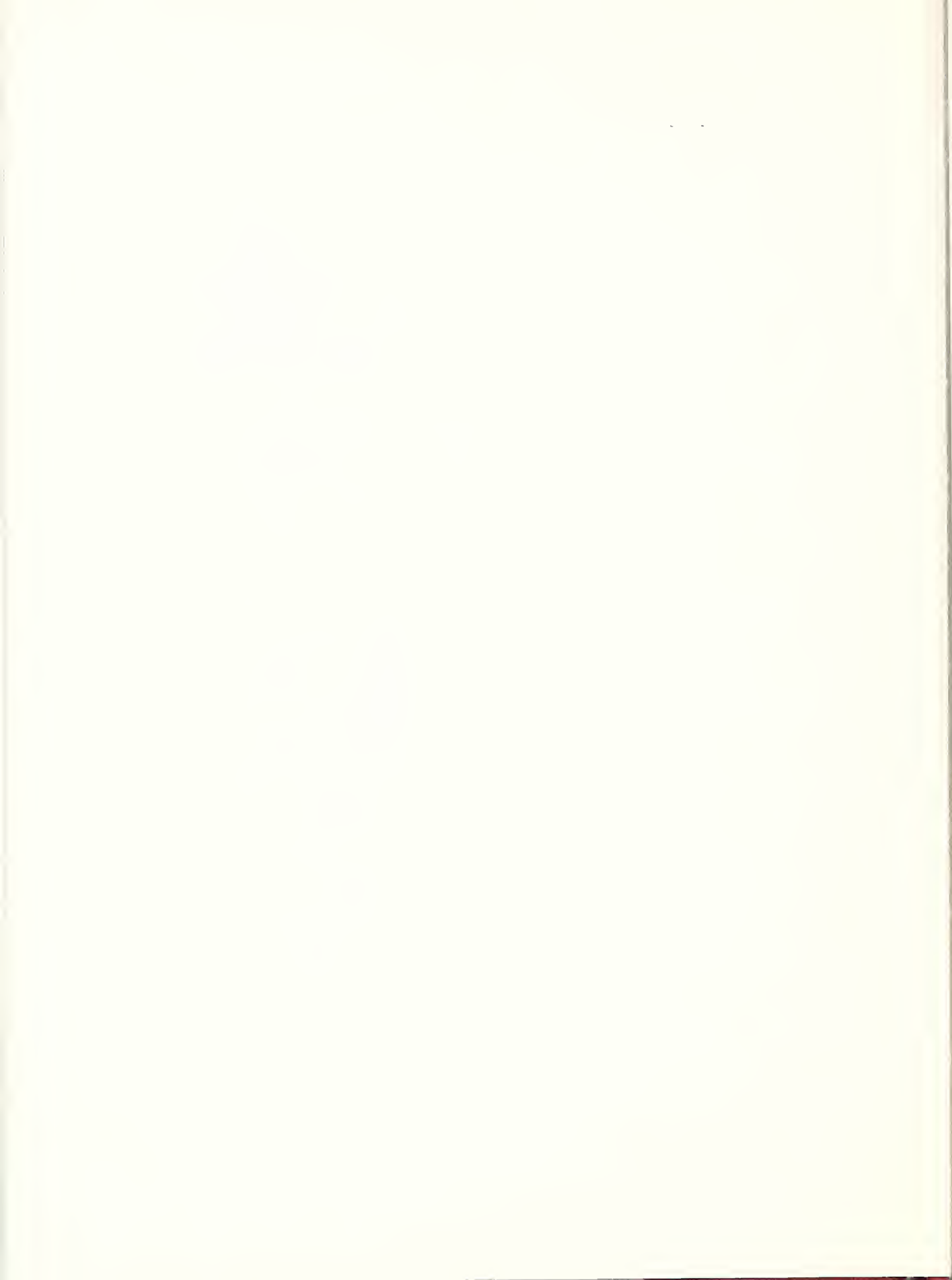
Finally, I do not see any economic basis for extraordinary overall price advances over the coming months. Business is adding to its capacity to produce. In general, supplies are adequate in relation to foreseeable demands. Also, more efficient productive facilities are being installed and factory unit labor costs should continue stable. Moreover, competition is keen among domestic concerns and with foreign firms that want to penetrate our markets. Recently, some scattered price increases have been announced, but some other prices have been reduced, and as a result, the wholesale price index has been practically stable since mid-year, following moderate advances during the second quarter of this year.

To summarize briefly: Most major demand sources are likely to show good increases next year. No excesses or imbalances have as yet appeared on the economic scene. Generally, inventory-sales ratios are relatively low; and, rising demands are keeping pace with capacity additions. It does not appear that credit has up to now stepped out of bounds.

The GNP is expected to exceed \$670 billion in 1965, representing a rise of more than \$40 billion over 1964. We may well have an increase in GNP in 1966 equal to that achieved this year. On the whole, we can look forward to another year of strong growth, with output, employment, sales, and profits making new record highs.







UNITED STATES DEPARTMENT OF AGRICULTURE

Summary of Remarks by
Mrs. Aryness Joy Wickens
Consumer Program Adviser
U. S. Department of Labor
at the

43d Annual National Agricultural Outlook Conference
Washington, D. C., 11:30 A.M., Monday, November 15, 1965

1965 has been an exceptional year for the American economy. The current consensus is that 1966 will be equally good. Of course, there will be variations. No 2 years are ever quite the same in such a fast moving world.

In 1965, the United States has enjoyed rapidly rising output and employment. With more people receiving higher wages, salaries, and profits, plus recently increased Social Security payments, substantially larger personal incomes have been available to spend on consumer goods and services--and they have been spent. Commodity prices have risen more rapidly than in the previous four years, but, in terms of trends in the rest of the world, these are modest price increases.

In 1966 many of the trends and much of the momentum of 1965 are expected to carry over. The emerging differences will reflect, in addition to the present high level of activity, the pressures generated by our activities in Vietnam and other international developments and, in specific sectors of the economy, the effects of new Federal programs put into operation or authorized in 1965.

For agriculture, as this audience knows, continued prosperity means more than just the assurance of good domestic markets--that has long since been assured by the relatively high level of American family incomes. It probably also means somewhat higher costs for farm operations and family living in 1966. But it also means another year with a climate favorable for agricultural readjustment, offering both more employment opportunities for those leaving the farm and an improved outlook for those who continue to farm or who stay on in rural communities.

The prospects for employment, wages and prices in 1966 will be clearer if we review developments of the past 12 months.

Employment and Unemployment

With the economy functioning at such a high level this year, employment has increased substantially and unemployment has been reduced to the lowest totals and rates since 1956-57.

In October, total employment was up by 2.1 million over a year ago to 73.2 million. Farm employment went down again--this year by 175,000--so that the nonagricultural economy provided net an additional 2.2 million jobs.

All this year the factory workweek has averaged a little more than 41 hours--the highest for so long a period since World War II. Long hours have been especially prevalent in durable goods industries, where workers have averaged nearly four hours of overtime per week.

For the second year in succession, an unusually large proportion of the employment expansion came in industries which employ mainly men, such as durable goods manufacturing, especially the metal working industries. As usual in this past decade, however, the lion's share of the expansion was in trade, State and local Government, and miscellaneous services.

Who were the people who got these added jobs? 900,000 were teenagers, 800,000 were women, and 350,000 were men.

This was the year, the long-dreaded year, when the first huge wave of postwar babies became 18 years of age, finished high school, and came looking for jobs. Yet the number of jobs found by teenagers matched their increase in the labor force--thanks partly to foresighted government policies and programs which tackled the potentially severe unemployment problems directly, and partly to the very favorable economic climate. Last summer, over a quarter million jobs were provided to young people by the Neighborhood Youth Corps and work-study programs alone.

The number of unemployed dropped about half a million over the year and the rate fell to 4.3 percent, from 5.2 percent a year ago. You will recall that the rate ranged from 5.5 to 6 percent in 1962 and 1963.

One of the indicators we have urged you to follow most closely is the unemployment of adult men. They accounted for about three-fourths of the total drop; their unemployment rate fell to 2.9 percent in October, the lowest since late 1953. In October, we were down to 800,000 unemployed men of 25 and over. This reflects not only the heavy demand for mature workers but also the fact that their supply has not been increasing very much in recent years; remember the low birth rates of the late Twenties and the Thirties?

Unemployment among adult women also declined to the lowest rate since 1957. For teenagers, however, even the very favorable circumstances of 1965 have cut their rate of unemployment only a little, to about 13 percent. This is three times the average. In October, there were some 800,000 teenagers seeking work--half of them in school and seeking part-time jobs.

Employment of Negroes has also improved and their unemployment rate is down to about 8 percent from nearly 10 percent last October--still twice as high as for whites.

So, despite all the progress we have made, there remain unemployment problems. They concentrate today--and they will tomorrow--among the ill-educated, the unskilled, the inexperienced, women coming back into the labor market with few skills and little mobility, and those who are disadvantaged by prejudices. Special pinpointed, person-to-person programs are required to help them and to try to prevent a new generation of ill-equipped young people from taking their places. These programs are now being hammered out, either in action or on the drawing boards.

Employment is determined not only by the level of economic activity but also by the rate of productivity gain. Early data for the current year indicate that the gains in output per man-hour are lagging behind the rises of recent years. This may be due to developments connected with the use of marginal resources at high levels of business activity. It may be due to temporary developments which are as yet unidentified. In any event, we see no reason now to anticipate a long-term slowdown in this important factor.

Next year, given the level of economic activity we are discussing today and average increases in productivity, will bring a continued high level of employment, continued shortages of experienced workers with wanted skills, and a rate of unemployment rather below the 1965 levels. The net increase in the labor force is expected to be about 1.3 million--about the same as this year. Half a million will be teenagers, nearly another half-million women 20 years of age and over and almost 400,000 men 20 years and over. On balance, this increase of about 1.7 percent in our labor force should be manageable.

Wages

With the demand for good workmen now pushing harder against the supply than at any time in practically a decade, with profits at record levels, and with the present general state of optimism about the economy, upward pressure on wage rates is understandable. In manufacturing, average hourly earnings during the first ten months of this year were up 8 cents or 3.2 percent from a year earlier; the straight-time rate was up 2.5 percent. Increases also occurred in construction, coal mining, the public utilities and retail and wholesale trade.

In the major contract negotiations this year, the first year increases in cash wage rates have been somewhat larger than in 1964, in part because first contract year wage increases in the 1964 auto contracts were small.

Most important was the settlement in the basic steel industry. It will increase average hourly compensation by about 3.2 percent a year with a total wage rate increase of about 21.5 cents over the life of the contract. In addition, minimum pensions were increased and above minimum pensions were liberalized, as were benefits for early retirement. A change in vacation provisions reflected the recent increase in demands for workers in the industry.

The Southern cotton textile industry announced its third wage increase in 18 months.

Already built into the 1966 wage structure are deferred increases negotiated in this and earlier years. Some 4 million workers in major collective bargaining situations will receive increases, with the most frequent increases being about 10 to 11 cents an hour. Some 2 million workers will receive additional escalator increases if the Consumer Price Index continues to rise. The deferred increases in the automobile and agricultural implement industries will be larger in 1966 than in the past.

1966, however, will be a year of relatively low activity in collective bargaining. The number of workers covered by agreements involving 5,000 or more employees which will expire in 1966, totals only three-fifths of the 1965 level and half of the 1964 level. The major industries which will be involved are electrical products, telephones and Pacific longshoring. Wage reopenings are also possible in railroads and coal.

Amendments to the Federal minimum wage law--The Fair Labor Standards Act--will be up before Congress again in 1966. Legislation to expand the coverage of minimum wage and overtime provisions to an additional 4.6 million workers was proposed by the President in May 1965. The proposed expanded coverage would have included some employees in farm processing and logging but not farm labor. The President, in his message to the Congress in May 1965, did not propose any specific change from the present \$1.25 an hour, but said that "as average wages rise, the minimum wage level should be increased periodically."

The House Education and Labor Committee developed and reported favorably on a Committee bill (HR-10518) to extend minimum wages and overtime coverage to an additional 7.9 million workers. This proposed expansion, among other things, would include 1,300,000 farm workers, who would receive \$1.15 an hour initially and \$1.25 an hour in July 1968 under the provisions of this Bill. No action was taken on this proposal.

Prices and the Cost of Living

The important price developments of 1965 have already been reviewed for you, for many of them originated in agriculture. The higher prices for livestock and meats and other food products, which please you so much, account for about a fourth of the rise in the Consumer Price Index since last autumn.

So far this year, the Consumer Price Index has risen 1.7 percent. The rise might have been as much as 2 percent if it had not been for the excise tax reductions, which, with a few exceptions, have been passed on to consumers. Virtually every major category of family purchases now costs slightly more than last year--whether it be housing costs, including fuels or local taxes;

clothing and footwear; transportation, including rising automobile insurance; or medical care. The major appliances and radios and TV sets and new and used cars are exceptions.

In September, even with the new crops of potatoes and other vegetables and fruits on the market, the 2.3 percent rise over a year earlier in retail food prices exceeded that of any other important group in the family budget, except medical care.

Next year, given your own forecasts of farm prices, it is unlikely that the rise in retail prices will be as large as this year.

In primary markets, prices have risen this year by 2.3 percent, the first rise of any consequence in seven years. Farm products and processed foods accounted for nearly 60 percent of this rise. However, prices of industrial products have also gone up by 1.3 percent. The upward pressures on industrial prices, while still moderate, are significantly stronger this year than for some years past and the 1965 price rise has been quite general. The largest advances have been in metals and related products where industrial activity has been at a high level. There have also been increases in fuels, hides and leather, rubber, lumber, paper, textiles, and machinery.

For 1966, given the high level of industrial activity now anticipated, prices for materials and for finished goods are expected to continue to rise moderately.

Summary

In summary, 1966 holds promise of a further expansion from the 1965 level, with growing employment and relatively low unemployment, and somewhat higher wages and prices.

